Dr.Babasaheb Ambedkar Open University

DIN
DIPLOMA IN INSURANCE

Block

1

General Insurance -1

Unit –1
Basic Understanding of Insurance 04

Unit –2
Fundamentals of General Insurance Contracts 09

Unit –3
Documents in Insurance Business 15

Unit –4
Legislative and Regulatory Format of Insurance Business 19

Unit –5
Fire Insurance 22

Unit –6
Marine Insurance 33

AUTHORS

1) **Shri Urvish B.Shah**
(M.Com.C.A)
I-6,Bhavna Flats,
Narayan Nagar Road, Paldi.
Ahmedabad- 07.

2) **Shri Tejas P. Shah**
(B.Com. C.A)
4, Saptsati Society,
Near Malav Talao, Jivraj Park,
Ahmedabad-51.

3) **Shri Hareshkumar B. Vadhel**
(M.Com. M.Ed.)
B/3-401, Vishwas App.
Sola Road,
Opp. Gulab Towar,
Ahmedabad.

CONTENT EDITOR

4) **Shri Mihir D. Khatri**
(B.Com. LLB. C.A)
D1/44, Arjun Tower,
Nr. C.P.Nagar, Ghatlodia,
Ahmedabad.

LANGUAGE EDITOR

5) **Shri Prakash Khuman**
(M.A., M.Phil.)
B/702, Sagun Castle,
B/H. Satelite Complex,
Vastrapur, Ahmedabad-51.

PUBLISHER :
Shri S. H. Barot
(I/C. Director & Registrar.)
Dr.Babasaheb Ambedkar Open University, Dafnala, Ahmedabad.
August, 2004 (Print)
© Dr. Babasaheb Ambedkar Open University, 2004.

All rights are reserved. No part of this work may be reproduced in any form, by mimeograph or any other means, without permission in writing from the Dr. Babasaheb Ambedkar Open University.

Further information on the Dr.Babasaheb Ambedkar Open University courses may be obtained from the University's office at Govt. Bunglows, No-9. Dafnala, Shahibaug, Ahmedabad – 380003. Ph : (o) : 22869690, Fax : 22869691

Printed by : Shree Neminath Printers, Shahibaug, Ahmedabad. Mobil : 9825042651

Unit : 1 : Basic Understanding of Insurance

Introduction:

Insurance is not a new concept in today's world. Due to new inventions, the life and the assets of the person has become full of risk. Moreover, everyone is taking more and more risk in their businesses and lifes with the expectation of maximum return. Due to this high level of risk, it may possible that the person may lose his life or assets. So due to these reasons, now a days, the concept of insurance has become wider. Every one is now trying to cover the insurable risk by taking insurance cover. In that way some of the risk of the business and life can be covered and no worries can be left for the same. Then after the person will have to take care of only of those risks which are not insurable. The scope of insurance cover has widened gradually and it is covering many things, which were not covered earlier. Mainly there are two types of insurances, which includes general insurances and life insurance. These are the two major heads, which involve many sub heads which we will discuss thought out our studies of insurance.

Structure of the chapter:

1.1 Objectives

1.2 Need of Insurance

1.3 Concept of Insurance:

1.4 Insurance – Need of Society

1.5 Insurance – It's Role in Economic Development

1.6 Exercise

1.1 Objectives:

By the end of this chapter the student will learn about:

- Meaning of insurance
- Insurance Mechanism
- Need for the insurance
- Benefits to the society and country of insurance

1.2 Need of Insurance:

Assets are purchased by persons in his business with the expectation of using it for a long period of time and generating income from it. But, if this assets get damaged or destroyed then probably the business of the person may be affected and he may suffer high losses due to loss of assets as well as loss of

business. The future is uncertain and the events due to which the loss to the assets may occur is also uncertain. Assets, which are being used in the business are very expensive and it becomes difficult for the individual to bear the risk alone. The first is the fact that people are exposed to risks and that the consequences of such risks are difficult for any one individual to bear. It becomes bearable when the community shares the burden.

Different assets are purchased in the business for running the business as well as running it smoothly. Now all these assets has limited life at the end of which a new one will be needed but it may possible that even before the completion of normal life, due to unavoidable circumstances like fire, flood , cyclone or other natural or man made calamities the assets may damaged or destroyed. Insurance cover is taken mainly to safeguard against the adverse economic conditions. Such adverse condition may arise due to damaging or destroying of the assets. The business of insurance is related to the protection of the economic value of the assets. Every asset has a value. The asset would have been created through the efforts of the owner, with expectation that, either income may be generated there from or some other output, some of his needs would be met. There is a normal expected life time for all the asset and he is prepared to replace the assets after its normal life. He manages his affairs in such a way that by the end of life time, he can substitute the assets to ensure that the value or income is not lost. However, if the asset gets lost earlier, being destroyed or made non-functional, through an accident or other unfortunate event, the owner and those deriving benefits therefrom may suffer. Insurance may not eliminate such possibilities, but will be helpful to reduce such adverse consequences.

Occurrence of natural calamity can not be predicted in advance it may occur or may not occur but, if occurs it can destroy the assets and probably the whole business. Insurance can not stop such calamities but it can protect a person from the adverse outcome of such perils. Assets are insured, because they are likely to be destroyed or made non-functional, through an accidental occurrence. Such possible occurrences are known as perils. Fire, floods, breakdowns, earthquakes, etc, are perils. Insurance cover is trying to cover the assets against such perils. Insurance cover is taken under the fear that such perils may affect the assets as well as the business. From the above discussion some student may think that the insurance cover protect against unfortunate events but it does not means that it prevents losses due to peril. The peril cannot be avoided through insurance. The peril can sometime be avoided, through better safety measures and damage control management. Insurance only tries to compensate the owner of the asset and those who depend on that asset. Insurance only comes into the act when the owner of the assets have suffer any loss due to peril. It compensates, may not fully, the losses. Only economic or financial losses can be compensated and life cannot be compensated through insurance cover, however the life of the persons can be insured to reduce the impact of loss of life of the earning hands of the family.

Insurance is covering against the future uncertain events. As we know that future is uncertain and anything can happen in future. The risk that is covered by insurance means that there is a possibility of loss or damage. It may or may not

happen. There has to be an uncertainty about the risk. Insurance is done against the contingency that it may happen. Insurance is relevant only if there are uncertainties. If there is no uncertainty about the occurrence of an event, it cannot be insured against. So uncertainty is a pre condition for safeguarding against the risk.

Insurance is made not only of the assets but also of the lives of human beings. A human life is also an income generating asset. This asset also can be lost through unexpectedly early death or made non-functional through sickness and disabilities caused by accidents. Moreover, in case of human being, insurance cover is taken at not only against the death or disabilities but also for safeguarding the retired life as well. These would have been made on the basis of some expectations like he may live for another 10 years, or that his children will look after him. If he does not live for another 10 years than the economically the family will lose the income generating asset thus insurance will compensate against it. In same manner if the children may not keep the parents in such case the parents will need some regular source of income to maintain themselves. In other words, If any of these expectations do not become true, the original arrangement would become inadequate and there could be difficulties and so insurance cover is taken for the purpose.

The scope of insurance covers has widened a lot, even intangible assets are also covered by insurance cover. In some countries, the voice of a singer or the legs of a football player are also insured.

1.3 Concept of Insurance:

As discussed earlier the insurance is to reduce the impact of economical loss due to loss of the assets. The insurance is required where there is any possibility of loss. The occurrence of the perils are not certain and that is the inherent characteristic of the insurance. Insurance companies uses a nice mechanism for covering risk of various people. All the people have the risk of losing the assets, but few of them may actually suffers the loss. On the basis of the above notion, insurance companies gather the people who are exposed to the same risks, collects some amount from all of them and agree to compensate the members who suffers the loss. People trying to safeguard against fire will come under one head against which people trying to cover against voyage risk will come under other head etc. The separate groups are prepared on the basis of the risk to which they are exposed. By this method, the risk is spread among the community and the likely big impact on one is reduced to smaller manageable impact on all. Money collected by insurance companies are known as premium. The amount of premium needed to collect from each person is determined on the basis of the expectations of maximum risk of all the persons taking insurance. It may be proportional to the likely loss of that each person is likely to suffer, which is indicative of the benefit he would receive if the peril befell them. Insurance companies collect premium in advance and create a fund from which the losses are paid.

Working of insurance business is somewhat different from other business. Insurance companies gather people facing common risks and collect small

contribution to a common fund, known as premium. Deciding premium of each person is very difficult task but the premium to be paid by each person is determined on the assumption that, it may not be possible to say well in advance, which person will suffer The only thing possible is to say is how many persons, on an average, may suffer losses on the basis of past experiences, So the decision of contribution is taken on the basis of the past experiences. The insurer is in the position of a trustee as it is managing the common fund for and on behalf of the community. It has to ensure that nobody is allowed to take undue advantage of the arrangement. That is to say that the management of the business requires care to prevent entry into the group of people whose risks are not of the same kind as well as paying claims on losses that are not accidental.

Example-1

In a village, there are 200 houses, each valued at Rs.40,000. Every year, on the average, 4 get burnt, resulting into a total loss of RS. 80,000. If all the 200 owners come together and contribute Rs.400 each, the common fund would be RS.80, 000. This is enough to pay Rs.20,000 to each of the 4 owners whose houses got burnt. Thus the risk of 4 owners is spread over 200 house – owners of the village.

Example-2

There are 1000 persons who are all aged 50 and are healthy. It is expected that of these 10 persons may die during the year. The economic value of the loss suffered by the family of each dying person is taken to be Rs.20, 000, the total loss would work out to RS.2, 00,000/-. If each person of the group contributes Rs200/- a year, the common fund would be RS.2, 00,000/-. This would be enough to pay Rs.20, 000 to the family of each of the 10 persons who die. Thus the risks in case of 10 persons are shared by 1000 persons.

1.4 Insurance and Society :

Insurance is helpful for the economic development of the society. The insurance is also useful for mobilisation of small savings in the society. Insurance has made mandatory in certain sector by the Government, because it provides social security to the general public. The various laws, passed by the state involve the use of insurance, compulsory or voluntary, as a tool of social security. Here the purpose of insurance business is not to earn money but to provide social security to various class of people. The Employees State Insurance Act, 1948 provides for the Employment State Insurance Corporation to pay for expenses for the sickness, disablement, maternity and death and for the maintenance of hospitals, dispensaries, etc. for the benefits of industrial employees and their families, who are insured persons. Insurers play an important role in the social security scheme sponsored by the government. Examples are the Solatium Scheme, the Personal Accident Social Security Scheme and the Hut Insurance Scheme. The Crop Insurance Scheme (RKBY) is a measure with considerable social significance. Apart from this support to government schemes, the insurance industry itself offers on a commercial basis, insurance covers which

have the ultimate objective of social security. Examples are: Janata Personal Accident, Jan Arogya, Raga Rajeshwari Kalyan Yojna, etc.

1.5 Insurance and Economic Development :

Insurance business is playing a great role in the economic development of the country. Insurance business helps the economic development of the country in various manners. Investments are necessary for economic developments, and such investments are mobilized by the insurance companies. Insurance companies being trustees of money given by insurance holder invest it in profitable and safe manner and they do not make investment in risky or speculative investments. The insurance companies generally invest the small savings into the infrastructural projects, which will boost the development of the nation. A life insurance company is a major instrument for the mobilization of saving of people, particularly from the middle and lower income groups. These savings are channeled into investments for economic growth. Moreover, Insurance, by giving insurance cover to assets and the life of the people, protects the capital in industry and releases the capital for further expansion and development of economy and removes the fear, worry and anxiety associated with this future uncertainty. It helps the businessmen to concentrate on the business without worrying about the loss of assets or profit due to some unforeseen unfavorable future events. In present day organization of industry, commerce and trade rely entirely on insurance for their operations. Banks and financial institutions lend money to industrial and commercial undertakings only on the basis of the insured collateral security. No bank or financial institution would advance loans on property unless it is insured against loss or damage by insurable perils. Moreover, insurers have established the Loss Prevention Association of India with objectives of crating an awareness of the need for loss prevention and implementing loss prevention measures in the various sectors of the economy, thereby increasing productivity and saving national wealth and before acceptance of a risk, insurers arrange survey and inspection of the property to be insured, by qualified engineers and other experts. The object of these surveys is not only to assess to the insured, but what is more important, reduce the loss potential. They want to create the awareness among the people about prevention rather then cure. The want to make the people understand that if proper measures are taken then loss on accounts of perils can be reduced, if not altogether removed. For example, burglary surveyors make recommendation in regard to security measures such as better locking system, appointment of watchmen, etc. Moreover, Insurance ranks with export trade, shipping and banking services as major earner of foreign exchange to the country.

1.6 Exercise:

1. Explain the concept and need of insurance?
2. How insurance provide social security to the society, explain?
3. Explain the mechanism of insurance business?
4. How insurance business helps in the economic development of the business?

Unit : 2 : Fundamentals of General Insurance Contracts

Introduction:

In the previous chapter, we understood the meaning and importance of insurance business. In this chapter we will discuss about the different principles on which the insurance business is relying. Different laws are made by the governme. for better running of the insurance business, but along with that different principles of natural justice are also applicable to the insurance business. In this chapter, we will study about such principles which are very much essentials in insurance business.

Structure of the chapter:

2.1 Objectives

2.2 Contract of Insurance

- **2.2.1 Utmost Good Faith**
- **2.2.2 Insurable Interest**
- **2.2.3 Indemnity**
- **2.2.4 Proximate Cause**

2.3 Assignment- Transfer of Interest

2.4 Limitations on The Insurer's Liability

2.5 Subrogation

2.6 Contribution

2.7 Exercise

2.1 Objectives:

By the end of this chapter the student will learn about:

- Essentials of contract of insurance
- Principles of contract of insurance

2.2 Contract:

Every business is based on contract and insurance business is not the exception to it. For valid contract there must be two parties to the agreement and agreement must be for some consideration.

There are two parties in the contract of insurance one is insured and the second is insurer. 'Insured' is the person whose risk is to be covered and the 'Insurer' is the person who agrees to cover the risk of the insured. The contract of insurance provides that the insurer will cover the risk of the insured on the payment of consideration. Such consideration is known as 'Premium'. When the

insured pays the premium and the insurer accepts the risk, the contract of insurance is concluded. The policy issued by the insurer is the evidence of the contract.

There are certain other essentials of the contract which are given in Contract Act, which must be followed in any contract, also applicable to contract of insurance e.g. consideration, legality of the object, consent of all the parties etc. Like other contracts in insurance contracts, both the parties should be of the same mind. In other words, there must be consent arising out of common intention. For example, if the proposer desired fire insurance and the insurers issue a burglary policy, there is no consent arising out of common intention. Moreover, no contract is valid unless there is due consideration. In the case of insurance contracts 'premium' is the consideration from the insured and the 'promise to indemnify' is the consideration form the insurer. The object of the contract must be legal and not against public policy. For example, stolen goods cannot be insured. Insurance of smuggling ventures would be regarded by courts as opposed to public policy. The person to the contract should be competent to contract; minors and persons of unsound mind cannot enter into insurance contracts. Thus the insurance must have all the essentials of the valid contract.

Above given were the essential from the general point of view where as there are other principles which are specifically applicable to the insurance contracts. These principles are known as fundamental or basic principles of law of insurance. These are:

- Utmost good faith;
- Insurable interest;
- Indemnity, and
- Proximate cause.

2.2.1 Good Faith: A Need

The parties to a commercial contract, according to law, are required to observe good faith. This may be treated as somewhat moral responsibility relates with the intensions of both the parties to the contract, which must be bona fide. The contract of the insurance is contract of utmost faith. The contract will be entered between the insured and insurer on the basis of the information provided by the insured. The insurer will take certain proofs to verify that the declarations and presentations made by the insured is correct. However, it is always not possible to verify the correctness of the statements made by the insured. Thus, the contract ,of insurance is made in good faith, that the insured has declared everything correct. If the contract of insurance is done with the intension of cheating or malafide intensions then it can not be said to be done in good faith. In insurance contracts, good faith is required to be observed but in a onerous way. The proposer has a legal duty to disclose all material information about the subject matter of insurance to the insurers. Information which enables the insurers to make an underwriting decision that is the decision (i) weather to accept the risk; and (ii) the rate of premium and terms and conditions of acceptance are material informations. This is called the legal duty of utmost good faith arising under the common law. The duty disclosing material facts ceases

when the contract is concluded by the issue of a cover note or a policy. The duty arises again at the time of renewal of the policy. This is so because in between the original policy and renewal there may be changes in the conditions of the policy and such changes need to be disclosed. Facts which are generally known to all or matters of law need not be disclosed by the proposer. For example, if a proposer seeks riots cover, he need not disclose the fact of prevalence of riots conditions. Insurers are expected to know about it in the normal course.

The breach of disclosing the material information may arise in any of the following ways. The breach may arise (a) unintentionally through an oversight or because the proposer thought it was not material or (b) intentionally. If there is intentional non-disclosure or mis-representation, then insurance contract becomes void. A void contract has no legal effect or validity. In fact, it is not a contract at all. If the duty is broken in any other way, the contract becomes void able, which means, the insurer will have the option to avoid the contact and reject the claim.

The proposal form is required to be filled in case any person wants to enter in to the insurance contract. The proposal form is designed in such a manner that all the material information can be asked from the proposed insurer. There is also the declaration contained in the proposal form that all the information given in the proposal form is true and correct. The proposal form will be taken as base for the contract. Insurers can avoid the contract if any answer is inaccurate or incorrect, even if the answer is not material to the risk.

The following are some examples of material facts: Material facts

Marine Insurance:

- The nature of goods
- The vessels carrying the goods
- The ports of shipment and destination, etc.

Personal Accident Insurance:

- Age, height and weight of the person
- Physical disabilities, etc.

2.2.2 Insurable Interest :A Need

The parties to the contract must have some interest in the contract. If, there is no such interest than such agreement is called wagering agreements and such agreements are not contract. In simple language, the person who is taking insurance must have interest in it. Insurable interest means the subject matter of insurance must relate with the person. In other words, the legal right to insure is called insurable interest.

e.g. A person has insurable interest on his own life.

2.2.3 Indemnity : A Need

The contract of indemnity is the contract to indemnify the person from losses. The insurance is taken with the object of covering and taking security against the perils. The insurance business is based on the principle of indemnity. The principle of indemnity arises under common law and requires that an insurance contract of indemnity only and nothing more. The object of the principal is to place the insured after a loss in the same financial position or as near thereto as far as possible, as he was immediately before the loss. The essence of principle of indemnity is to make good the losses but no one can earn profit out of it. The measure of indemnity for loss of or damage to the insured property is generally the intrinsic market value of the property at the place and on the date of loss or damage. But it may depend upon the circumstances of the case and terms of the insurances under various types of insurances like fire, marine and misc. insurance.

2.2.4 Proximate Cause :A Need

The loss may occur due to various perils. The insurance policy is taken for the loss caused due to particular perils. According to proximate cause, the insured will be indemnified if loss is caused by the reason covered with in the contract of insurance. The object of insurance is to provide indemnity for such losses as are caused by insured perils. In case of fire policy the damages occurred due to fire will be covered, however, if damage occurred by a bomb dropped by an enemy country, then the loss is caused by war which is an excluded peril and hence not payable under the standard fire policy. The insured must be clear about the type of policy he want to taken in order to protect against the loss. In the same manner it is important for the insurer to determine the cause of loss to decide whether the loss is payable or not. There is no liability for a loss caused by an uninsured peril or an excluded peril. If the loss may be the result if 2 or more causes, acting simultaneously or one after the other. Then, it becomes necessary to choose the most important, the most effective, and the most powerful cause which has brought about the loss. This cause is termed the 'proximate cause', all other causes being considered as 'remote'.

There are certain other principles which includes:

2.3 Transfer of Interest:

Assignment means transfer of insurable interest from one person to other. Assignment is possible in insurance business. Assignment is required when the ownership of the asset is transferred from one person to the another, and the first person was insured. In such case, the insured will assign his rights and liabilities under the insurance contract to the new owner. Thus, assignment means transfer of rights and liabilities of an insured to another person who has acquired insurable interest in the property insured. This person, called the assignee, becomes the new insured to whom the benefits of insurance are passed. He is entitled to deal with the insurers in his own name and recover directly any claim under the policy. Generally fire and miscellaneous insurance policies are assigned only with the consent of the insurers. Marine cargo policies are, however, freely assignable with the previous knowledge or consent of the insurer. The reason is

that the ownership of goods insured under a marine cargo policy frequently changes when the goods are still in transit, and it is necessary that the benefit of the policy should pass to the new owner.

2.4 Limitation:

To what extent insurer is liable to the insured in case of loss must be decided well in advance before the contract. The insurer's liability is subject to several limitations, some of which are mentioned below:

- The liability of the insurer will not exceed the sum assured
- Secondly, the liability of the insurer will not be more than the depreciated value of the assets. (ie. Even if the sum assured is more but the value of assets is less than the liability of the insurer cannot exceed the depreciated value of the assets)
- Thirdly, the amount payable should not exceed the actual loss incurred, even if the sum assured is more than the actual loss.
- In respect of policies which are under insured the loss is payable on the basis of average clause

2.5 Subrogation:

The principle of subrogation is based on the concept that one should not enrich himself at the cost of other. Subrogation may be defined as the transfer of rights and remedies of the insured to the insurer who has indemnified the insured in respect of the loss. If the insured has any right of action to recover the loss form any third party, who is primarily responsible for the loss, the insurer, having paid the loss, can recover the amount from the third party. The effect is that the insured does not receive more than the actual amount of his loss and any recovery affected form the third party goes to the benefit of the insurer to reduce the amount of his loss. Insured should not be making profits out of the misfortune which is against the principle of indemnity.

In simple words, if any benefit is derived by insured from the third party who is ultimately responsible for the loss, then such benefit should be passed on to the insurer.

Example:

Insured property may be destroyed by fire caused by the negligence of a third party who is at law responsible to make good the loss. The insurer having indemnified the insured is entitled to the insured's right of recovery against the third party.

2.6 Contribution:

It is possible that an insured has taken more than one insurances for the same insurance matter. An insured may have several insurances on the same subject-matter. If he recovers his loss under all these insurances, he will

obviously make a profit out of the loss. This will be an infringement of the principle of indemnity. Common Law has, therefore, evolved the principle of contribution which may be defined as the right of insurers who have paid a loss under a policy to recover a proportionate amount from other insurers who are liable for the same loss. So, here an insurer can recover amount from the other insurers on proportionate basis.

2.7 Exercise:

1. What are the essentials of a contract of insurance?
2. Explain basic the principles of insurance business?
3. Explain the principle of Assignment?
4. Explain the principle of Contribution?
5. Explain the principle of Subrogation?
6. Explain the liability of insurer?

Unit : 3 : Documents in Insurance Business

Introduction:

As we know that the business of insurance is based on a contract. For creating and running a contract various documents are needed. These documents are essential for the validity of the contracts. So during these chapter, we will discuss about the different documents are needed in the general insurance contracts.

Structure of the Chapter:

3.1 Objectives

3.2 Proposal Forms

3.3 Policy Forms

3.4 Warranties

3.5 Cover Notes

3.6 Endorsements

3.7 Renewal Notice

3.8 Claim Form3.9 Survey Report

3.10 Exercise

3.1 Objectives:

By the end of the chapter the student will learn about:

- Different documents needed for creating and running insurance contracts
- Following are the documents mainly needed in an insurance contracts:

3.2 Proposal Forms:

As the name itself suggest the proposal form is the formal proposal by the person who wants to take the insurance to the insurance company. Proposal form may be considered as the first document necessary for the purpose of creating an insurance contract. The company's printed proposal form is normally used for making an application for the required insurance cover. The insurance companies designs the proposal form in such a manner that they get the material information required to determine the premium and terms of the policy. The proposal form contains questions designed to elicit all material information about the particular risk proposed for insurance. The number and nature of questions vary according to the particular class of insurance concerned.

In marine cargo insurance, it is not the practice to use a proposal form, although sometimes it is usual to obtain a questionnaire or a declaration form duly completed.

Normally, in proposal forms following things are required to be given by the person proposing :

- Proposer's name is full
- Proposer's address
- Proposer's profession, occupation or business
- Previous and present insurance
- Loss Experience: The proposer is asked to declare full details of all losses suffered by him whether or not they were insured.
- Sum Insured: This is the maximum limit of liability under the policy and has to be indicated in all proposal forms.
- Other sections common to all proposal forms relate to signature, date and in some cases agent's recommendation.

In addition to these general questions which are common to all proposal forms, there are special questions depending upon the class of insurance concerned.

3.3 Policy Forms:

After submitting the proposal if the insurance company finds is okay and want to enter into contract then they will issue the Policy. The Policy is a document which provides evidence of the contract of insurance. Express and implied conditions are included in the policy forms. Express conditions serve various purposes. Some conditions deal with details of practice. Example is the condition, which provides for cancellation of the policy, timely notification of loss to the insurers, etc. In the absence of these express conditions, the contract of insurance would be subject only to the implied conditions which relate to (i) good faith, (ii) insurable interest, (iii) existence of the subject matter of insurance; and (iv) identification of the subject matter. The policy forms are required at the time of claim and so it is to be properly preserved during the period of the insurance.

3.4 Warranties:

In insurance contracts, insured must be warranted that they will be indemnified if loss occurred. So these warranties must be disclosed to the insured. Apart from express conditions, there are express warranties incorporated in the policy. The warranties is the declaration given by the insured to the insurer. During the proposal the insured has to make certain declaration. This declaration takes the form of warranties to the insurer. These may be printed on the policy itself, or more commonly, attached to the policy in separate warranty forms. A warranty, is a condition expressly stated in the policy on the literal fulfillment of

which the validity of the contract depends. It is a condition precedent to the contract. Warranties is to be complied strictly whether or not it is material to the contract or not. Breach of the warranty makes the contract void even though such breach has not contributed for the loss. The example of the warranty is that in case of Burglary Insurance, the premises will be guarded by a watchman at all times.

3.5 Cover Notes:

Cover note is the temporary arrangement, pending issue of the final policy to the insured. Cover note is also known as bridge insurance. It is a sort of provisional policy or bridge policy. Cover notes are issued when the negotiations for insurance are in progress and it is necessary to provide cover on a provisional basis or when the premises are being inspected for determining the actual rate applicable. Pending the preparation of the policy, the cover note is issued as evidence of protection for a temporary period of time and to prove that cover is in force. It gives brief details of cover. The cover note is temporary and will be superseded once the policy is issued.

3.6 Endorsements:

The insurance policies are generally issued in the standard format. The standard terms and conditions are printed on the policy itself. However, for each insurance policy certain modification are required. Thus it is done by way of memorandum attached to the policy and forming part of the policy. Such memorandum is called endorsement.

In other words, it is a supplementary document attached with the insurance policies for making modifications in the policies of insurances.

The alterations normally required under a policy relate to:

- Variations in sum insured (increase/ decrease)
- Change of insurable interest by way of sale, mortgage, etc.
- Extension of insurance to cover additional perils.
- Change of risk, e.g. change of construction, or occupancy of the building in fire insurance.
- Transfer of property to another location.
- Change in name or address etc.

3.7 Renewal:

Insurance contracts comes to end at the end of the fixed duration for which it is entered, generally one year. At the end of which, it lapses and required to be renewed. Although there is no legal obligation on the part of insurers to advice the insured that his policy will expire on a particular date, and if he wants to continue the benefits from it he will have to renew the policy, yet, as a matter

of courtesy and healthy business practice, insurers issue a Renewal Notice one month in advance of the date of expiry, inviting renewal of the policy. It is practice to include in the renewal notice, a note advising the insured that he should intimate any material alterations in the risk. If there is no alteration than the policy will be renewed on same terms and condition as was existing in the last policy.

3.8 Claim Form:

This form is not needed in the initial stage of the policy rather it is required on the later stage when loss is occurred. This from is issued to the insured when he notifies a loss under the policy. The contents of the claim form vary with each class of insurance. In general, the claim form is designed to elicit full information regarding the circumstances of the loss, such as date, time, cause and extent of loss.

3.9 Survey Report:

If any loss is occurred to the insured, he may submit claim form, this loss is required to be surveyed. The independent person, duly licensed, appointed by insurers, will come for the survey at the place where the loss is occurred and will give the report of the survey which he has conducted. This report provides independent evidence of cause and extent of loss and other information necessary for the insurers for the processing and settlement of claims.

3.10 Exercise:

Write a note on different documents needed in an insurance contracts, like

1. Proposal forms
2. Policy forms
3. Renewal notice
4. Warranties
5. Cover notes

Unit : 4 : Legislative and Regulatory Format of Insurance Business

Introduction:

During this chapter, we will study about the legislative aspect of the insurance business. We will discuss about the various acts created and related with the insurance business.

Structure of the chapter:

4.1 Objectives

4.2 Insurance Act, 1938

4.3 Registration:

4.4 Licensing of Agents

4.5 Licensing of Surveyors and Loss Assessors

4.6 IRDA 1999

4.7 Insurance Ombudsman

4.8 Exercise

4.1 Objectives:

By the end of this chapter the students will come know about:

- Different legal laws prevailing for insurance businesses in India

- Following three are the major laws governing insurance business:

- Insurance Act, 1938
- Insurance Regulatory and Development Authority Act, 1999 (IRDA)

4.2 Insurance Act, 1938:

The insurance business is governed by specific enactment. This Act, originally passed in 1938, has been amended several times, the latest amendment being made by the IRDA Act in 1999. By the latest amendment, the IRDA has become the Authority to perform many tasks required to be done under the Insurance Act, like issuing licenses, issuing registration certificates, monitoring compliance with the provision of the Act, issuing directives, laying down norms etc.

The important provisions of the Act, as amended, are briefly outlined as follows:

4.3 Insurance Registration:

Every insurer is required to obtain a Certificate of Registration. This registration is required to be renewed annually. For registration, the paid-up equity capital of the insurer to be Rs.100 crores for life insurance or general insurance and Rs. 200 crores for re-insurance business. Separate accounts of all receipts and payments in respect of each class of insurance viz., fire, marine or miscellaneous insurance. They are also required to prepare, in respect of insurance business and in respect of shareholders funds at the expiration of each financial year, a balance sheet, a profit and loss account, and revenue account for each class of insurance business. Insurers are required to invest his assets only in those investment approved under the provision of the Act. Returns are to be submitted periodically, in the prescribed form, to the IRDA, giving details of the investments. The Act requires every insurer to do minimum insurance business in the rural or social sector, as may be specified by the Authority.

4.4 Licensing: Agenys

There are certain rules to make any person as an agent under the insurance act. No persons can work as an insurance agent unless he has obtained a license from the Authority. Licenses will not be granted to minors and those suffering form any kind of disqualifications mentioned in the Act.

These disqualifications are :

- being of unsound mind
- being convicted of criminal misappropriation or criminal breach of trust or cheating or forgery or abetment or attempt to commit any such offence
- being found to have been guilty of or connived at any fraud, dishonesty or misrepresentation against any insured or insurer.

4.5 Licensing: Surveyors and Loss Assessors

Surveyors and loss assessors are appointed to assessee losses of the in case of accident or on occurrence of perils. No claim for a loss equal to or exceeding Rs. 20,000/- can be settled by an insurer unless he has obtained a report on the loss form a licensing surveyor.

Any person who wants to act as surveyor or loss assessor he has to obtain the license from the Authority. For getting the license he has to satisfy the authority that :-

- Has been in practice as a surveyor or loss assessor on the date of commencement of the IRDA Act, 1999 or
- Possesses any of the qualifications specified in the Act, e.g. Chartered Accountancy, degree in engineering \, diploma in insurance, etc.
- Does not suffer from any of the disqualifications specified for grant of agents license.

If the applicant is a company or a firm the above requirements apply to all the directors or partners, as the case may be. Every surveyor or loss assessor shall comply with the code of conduct in respect of duties, responsibilities and other professional requirements as may be specified in the Regulations made by the Authority.

4.6 IRDA 1999:

Under the Act, the Insurance Regulatory and Development Authority have been established. The powers and functions of the authority include registration of insurers, intermediaries and agents; regulation of terms and conditions of contracts of insurance; promoting and regulating · rofessional organizations connected with the insurance and re-insurance bus. .ess; monitoring investment of funds and solvency margins of insurance companies. The Authority is to be advised by a Committee to be known as the insurance Advisory Committee, which shall consist of not more than twenty-five members.

4.7 Insurance Ombudsman:

This can be treated as the judicial aspect of the insurance business. In terms of the Redressal of Public Grievances Rules 1998, the Central Government has appointed an Ombudsman. He has powers to receive and consider complaints in respect of the following matter provided a written representation had been made to the insurer earlier and there was no satisfactory response.

- Any partial or total repudiation of claim by an insurer;
- Any dispute in regard to premium paid or payable in terms of the policy;
- Any dispute on the legal construction of the policies in so far as such disputes relate to claim;
- Delay in settlement of claims
- Non-issue of any insurance document to customers after receipt of premium.

4.8 Exercise:

1. Explain the legal provisions related to registration in Insurance business?
2. What are the disqualifications for becoming insurance agents?
3. What are the disqualifications for becoming surveyors?

Unit : 5 : Fire Insurance

Introduction:

Up to now, we have discussed about needs of insurance as well as legislative part of the insurance but now in this chapter we will discuss about the perils in insurance business. Loss may be created due to fire and which may affect the assets of the business and business itself heavily. So during this chapter, we will discuss about the loss due to fire and in what manner fire insurance can protect against the same. Moreover, we will discuss about the rules and regulations as well as procedure related to insurance business.

Structure of the chapter:

5.1 Objectives

5.2 Properties Covered

5.3 Protected Perils

5.4 Exclusions

5.5 General Conditions In Fire Insurance

5.6 Additional Coverage

5.7 Valued Policies

5.8 Partial Insurance

5.9 "Kutcha" Construction

5.10 Special Policies

- **5.10.1 Floater Policy**
- **5.10.2 Declaration Policies**
- **5.10.3 Reinstatement Value Policies**
- **5.10.4 Industrial All Risks Policy**

5.11 The Practice of Fire Insurance

5.12 Survey Report

5.13 Consequential Loss (Fire) Insurance

5.14 Loss of Profits Insurance:

5.15 When Loss Becomes Payable:

5.16 Exercise

5.1 Objectives :

By the end of this chapter the student will learn about:

- Perils covered under fire insurance
- Items covered under fire insurance
- Exclusion in fire insurance
- Various conditions applicable in fire insurance
- Proceedings of fire insurance
- Miscellaneous matters

5.2 Coverage:

Fire Insurance is designed to provide financial protection for property against loss or damage by fire and other specified perils. Examples of insurable property are:

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

5.3 Perils:

Fire insurance protects the assets against following perils:

- Fire
- Lightning
- Explosion/Implosion
- Aircraft Damage
- Riots, Strike, Malicious and Terrorism Damage

- Strom, Cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood and Inundation
- Impact Damage
- Subsidence And Landslide including Rock Slide
- Bursting and/ or overflowing of Water Tanks, Apparatus and Pipes
- Missile Testing Operations
- Leakage from Automatic Sprinkler Installations
- Bush fire

5.4 Exclusions:

Fire policy do not protect against:

- Claim resulting form the operation of Lightning / Subsidence & Landslide including rock slide covered under the Policy.
- Loss, destruction or damage caused by war, and kindred perils.
- Loss, destruction or damage directly or indirectly caused to the property insured by nuclear peril.
- Loss, destruction or damage caused to the insured property by pollution or contamination excluding
- Pollution or contamination which itself results from pollution or contamination.
- Any peril hereby insured against which itself results from pollution or contamination
- Loss, destruction or damage to the stocks in cold Storage premises caused by change of temperature.
- Loss, destruction or damage to any electrical and / or electronic machine, apparatus, fixtures or fittings (excluding fans or occasioned by over-running, excessive pressure, short circuiting, arcing, self-heating or leakage of electricity, from whatever cause (lightning included).

5.5 Conditions in Fire Insurance:

Various conditions related with the fire policy are given below:

Insurance policies are based on the utmost good faith as we discussed earlier. Full and true disclosure is very essential for every insurance policies. This policy shall be voidable in the event of mis-representation, mis-description or non-disclosure of any material particular. The information given must be full and correct. If certain facts affecting the decision of the insurer are not disclosed than also the policy becomes voidable.

The insured had to intimate the insurer about the loss within the specific period of time. All insurance under this policy shall cease on expiry of 7 days from the date of loss of assets. Provided such a loss is not caused by insured perils.

If there are any material changes in the subject matter of the policy then it is required to be intimated to the insured. These are material changes in the risk and hence have to be notified to the company.

If the condition under which the insured property or assets is kept changes which has material effect on the existence or life of property or assets than the same is required to be informed to the insurer.

If the interest in the property insured passes from the insured otherwise than by will or operation of law then the insurer is to be informed of such change. The new person acquiring the property will only get the benefit of the insurance if the same, policy is assigned to him on the transfer of property.

However, on the death of the insured the legal heirs automatically become the insured.

The policy can be cancelled either by insured or by insurer. This condition deals with the cancellation of the policy by either of the parties to the contract. If the cancellation is by the insured then the premium is retained by the company on short period basis. The insurance company can also cancel the policy by giving 15 days notice will be refunded on pro-rata basis.

There are certain requirements which must be followed at the time loss. This condition deals with the duties of the insured on the happening of a loss which are :

- Notice of loss/damage should be given to the Insurer forthwith.
- Within 15 days or further time as allowed by the insurance company submit a claim statement giving item wise details of amount of loss not including profit of any kind.
- Particulars of other insurances should be submitted.

Non-compliance of this condition will make the claim untenable.

Certain rights are given to the insurer which he can use at the time of loss. The rights of the insurers are :

- Enter and take possession of the building or premises where the loss ahs occurred
- Take possession of any insured property that was in the building during the loss/damage.
- Remove, sort, arrange or salvage the property
- Sell or dispose off the damaged property as they deem fit, for account of whom it may concern.

It is necessary for the insured to cooperate with the insurer to complete the proceedings of insurance. If the insured or any other person on his behalf does not co-operate or hinders the process in any way then all benefits under this policy shall be forfeited. The insured does not have any right to abandon damaged property whether the insurer takes possession or not.

There are special provisions are made for the situations when the intension of the insured is defraud insurer. If the claim is fraudulent or any false evidences are produced by the insured to avail of a benefit under the policy then the insured loses all benefits under the policy. Similarly if the loss or damage is caused willfully by the insured or with his connivance then all benefits under the policy will be forfeited.

When the insured claims the highly exaggerated amount of loss then the insurer have option to reinstate or replace the property that is lost or damaged instead of paying the amount of claim to the insured.

Insurance can be taken of any value, except it should not exceed the value of the property insured. In case, if the property is insured for lesser value than the value of property than the average clause of the policy will apply. An insured is expected to insure his property for its full value. In the event of claim if it found that he has not covered the property for its full value, then he has to bear the proportionate amount of the claim for which his property is not insured. The condition states that the adequacy of sum insured will be checked against sum insured under each item as well as on the total sum insured.

Example:

Value of property	Rs.3, 00,000
Sum Insured	Rs. 1,50,000
Loss	Rs. 80,000

The amount payable

= 1, 50,000/ 3, 00,000 x 80,000

= Rs. 40,000

The concept of subrogation provides that in the event of more than one policy covering the loss all policies will contribute towards the claim amount in the proportion that the particular policy's Sum insured bears to the total sum insured under all the policies.

The concept of contribution provides that if the loss is caused by a third party, the insured is required to give assistance to the insurers to enable them to recover the loss form the third party responsible for the loss. The insured's rights of recovery against the third party are subrogated to the insurers, and this transfer of rights takes place even before the insurers pay the loss.

Any dispute regarding the amount of claim payable (liability having been admitted by the insurers) shall be referred to arbitration as per the provisions of

the Arbitration and Conciliation Act, 1996. Arbitration is a private method of dispute resolution and is faster and cheaper than the process of litigation.

Every notice and other communication to the company required by these conditions must be written or printed.

The insured must pay the full amount of premium and if the loss occurred when full amount of premium is not paid by the insured then upon the settlement of any loss under this policy, pro rata premium for the unexpired period from the date of such !oss to the expiry period of insurance for the amount of such loss shall be payable by the Insured to the company. The additional premium referred above shall be deducted form the net claim payable under the policy.

5.6 Additional Coverage:

This Section permits the inclusion of the following Additional coverage over and above the normal coverage as per the practice prevailing in the market.

In event of loss, the assets will be lost and the new assets is required to be created. The insurance company will only pay the amount of loss corresponding to the value of the assets. However certain additional expenses are require to incure to reinstate the assets and the insured may have to engage the services of professionals like Architects, Surveyors, Consulting Engineers, etc. in connection with drawing up plans, specifications, tenders, etc. and superintending the reinstatement of building, machinery, etc. The insurance covers such expenses to the extend of 3% of the claim amount under the standard policy.

Following a loss, the insured may have to incur costs and expenses regarding the following expenses which will be allowed as additions.

- In the removal of debris from the insured premises.
- Dismantling or demolishing
- Shoring or propping up the portion of the property, insured destroyed or damaged by insured perils.
- The sum insured for the extension is separately fixed.

This extension also provides cover for destruction or damage to insured property by change of temperature as a consequence of failure of electric supply due to damage to Electricity Station or Sub-Station of Public Electricity Supply undertaking by insured perils.

The extension does not cover any loss due to any act of government, municipal authority etc or due to rationing etc of power supply.

Another extension covers loss or damage by fire only of the insured property caused by its own natural heating or spontaneous combustion. Spontaneous combustion means burning which results from internal heating and not from

external causes. This takes place in certain commodities e.g. groundnuts, dyes, chemicals, paints and varnish, gunnies, hay and grass, copra cake, etc.

The additional extension covers loss or damage to the property insured directly caused by burning, whether accidental or otherwise, of forests and jungles and the clearing of lands by fire.

Additional coverage available for impact damage due to Insured's Own Rail / Road Vehicles and the like and articles dropped therefrom.

The policy may also includes the provisions for, omission to insure, additions, alterations or extensions made to the property. The insured may make additions to machinery or alterations, etc. and may not be able to advise the insurers. The extension provides cover on Buildings, Machinery etc. which the insured may acquire or erect.

5.7 Valued Policies:

Valued policy (ies) can only be issued for properties whose Market Value cannot be ascertained. E.g. Curios, Works of Art, manuscripts, obsolete machinery and the like subject to the valuation certificate being acceptable to the insurers.

5.8 Partial Insurance:

It is permissible:

- To issue a policy covering portions only of a building. However, the plinth and foundations or the foundation only of a building may be excluded.
- To issue a policy covering only specified machinery (except boilers), parts of machine or accessories thereof house in the same block/building.

5.9 "Kutcha" Construction:

Building(s) having walls and / or roofs of wooden planks / thatched leaves and / or grass / hay of any kind / bamboo / plastic cloth / asphalt cloth / canvas / tarpaulin and the like shall be treated as "Kutcha" construction of rating. Such buildings which are considered as "Kutcha" are prone to damages much more than the normal building and an additional rate of 4.00% shall be charged for such building(s) and / or contents thereof.

5.10 Special Policies

5.10.1 Floater Policy:

This policy consist special benefits which allows policies to cover stock at various locations under one sum insured. For example, the insured may have

stocks in two or more godowns. He is able to declare for insurance the total value of goods in all godowns but not separate values for each godown.

Similarly, in a manufacturing risk, the stocks in the process blocks, godowns and / or in the open can cover under one sum insured.

5.10.2 Declaration Policies:

To take care of frequent fluctuations in stocks / stock values, Declaration Policy (ies) can be granted, which considers the effects of changes in stock value or stock on the insurance, subject to the following conditions:

The minimum amount of sum insured in the declaration policies shall be Rs. 1 crore.

In respect of declaration policies monthly declarations based on the average of the highest value at risk on each day or highest value on any day of the month shall be submitted by the Insured latest by the last day of the succeeding month. If declarations are not received within the specified period, the full sum insured under the policy shall be deemed to have been declared

Reduction in sum insured shall not be allowed under any circumstances.

Refund of premium on adjustment based on the declarations / cancellations shall not exceed 50% of the total premium.

The basis of value for declaration shall be the Market Value unless otherwise agreed to between insurer and insured.

The following are not permissible to be covered under declaration policy

- Insurance required for a short period.
- Stocks undergoing process.
- Stocks at Railways sidings.

5.10.3 Reinstatement Value Policies:

This is the special type of policy issued for the purpose of reinstatement of cost of the asset damaged. This is the fire policy with the reinstatement value clause attached to it. The clause provides that in the event of loss, the amount payable is the cost of reinstating property of the same kind or type, by new property. So, here the full amount of value is intended to be given.

This basis of settlement differs from the normal basis under the fire policy where the losses are settled on the basis of market value i.e. making deductions for depreciation, etc.

Under reinstatement value policy, it is possible to recover not the depreciated value of the building or machinery, but the cost of replacement of the damaged property by new property of the same kind.

These insurances are granted to insured ones whose bona-fides are satisfactory and, are generally issued only in respect of building, plant and machinery in a comparatively new condition.

These insurances are not granted on stocks.

5.10.4 Industrial Policy:

This type of policy is made for the industrial units and not for the individuals. This policy covers various types of insurance policies in one single policy. This is a package cover designed for industrial policies (both manufacturing and storage facilities) with an overall sum assured of Rs. 100 crores. The policy provides cover for the following:-

- Fire And Special Perils
- Burglary
- Business Interruption, (Which Is An Optional Cover)
- Machinery Breakdown / Boilers Explosion / Electronic Equipment (Material Damage)

Discount in tariff rates are provided. Under insurance of up to 15% permitted. Apart from the reduced costs of premium, there is administrative convenience both for the insured and the insurer. Insured is benefited because all the assets are insured against the various type of perils from one single policy. Insurer is benefited because the paper work and the administrative cost of the policy will be reduced.

5.11 The Practice in Fire Insurance:

The fire proposal forms contains all necessary information for insurance contract. The fire proposal form elicits, among other things, the following information.

Description of the property, this would include:

- Construction of external walls and roofs, number of store.
- Occupation of each portion of the building.
- Presence of hazardous goods.
- Process of manufacture.
- This sum proposed for insurance
- The period of insurance
- History of previous losses
- Insurance history – whether previously other insurers had declined the risk, etc.

For manufacturing risks like factories and huge plants or industrial complexes with a large number of different blocks, a risk inspection report is submitted by the insurer's engineers.

5.12 Survey:

When any loss to the property incurred, it is required to be surveyed. If the amount loss is small, the insurers may depute an officer to survey the loss and decide on the settlement of the loss on the basis of the claim form and the officer report. However, in large losses, an independent surveyor duly licensed by the Government is appointed to give a report on the loss. Such survey reports become the basis for the admission of the claim of the insured party. The amount of the claim will also be determined from the survey report.

5.13 Consequential Loss (Fire) Insurance:

Though fire insurance saves the insured from different perils, it does not provide complete protection to the insured who may also suffer trading losses due to total or partial stoppage of the business due to such loss. The purpose of consequential loss or loss of profits insurance (also known as Business interruption insurance) is, therefore, to make good these losses.

Fire insurance is concerned with the 'capital' loss, i.e. loss of property; profit insurance is concerned with the 'revenue' loss, i.e. trading loss due to interruption of business as a result of an insured peril.

5.14 Loss of Profits Insurance:

During this discussion, we will see in what manner loss of profits can arise. The profits of a business are related to the total income or turnover. If this is stopped or reduced, the profits are affected. Therefore, loss of profits is determined and measured with reference to reduction in turnover and this is the basis usually adopted in profits insurance.

Turnover consists of the following three elements:

Variable Charges: These are expenses incurred in producing the goods (e.g. purchase of raw materials, wages, etc.)Which vary in amount in direct proportion to the volume of business transacted.

Standing Charges: These expenses are fixed in amount irrespective of the volume of the business transacted which cannot be reduced in direct proportion to any reduction of business (e.g. taxes, bank interest, salaries to permanent staff, etc.)

Net Profit: This is turnover minus variable and standing charges.

Gross Profit: Standing charges and net profit together constitute the gross profit of the business.

When the turnover is reduced, the variable expenses may also be reduced in the same proportion in which the turnover is reduced, in which case the insured suffers no loss on this account. But the standing charges do not reduce in the same proportion and net profit too will be affected.

5.15 Payment of Loss:

- Fire or other insured peril must occur at the insured premises.
- Property used for the business of insured at the insured premises must be destroyed or damaged.
- The business must be interrupted or interfered with as a consequence.
- The resulting loss is paid in accordance with the provisions of the policy.

5.16 Exercise:

1. What are the perils covered under the fire insurance?
2. What are the exclusion from fire insurance business?
3. What Properties are covered under fire insurance?
4. What are the necessary conditions for the fire insurance business?
5. Explain special policies in fire insurance business?
6. Write note on loss of profit policy?

Unit : 6 : Marine Insurance

Introduction:

Marine insurance is not a new concept in business world. Even our ancestors, when they were doing business abroad through voyage, used to insured their goods as well as vessels. Marine insurance also includes the insurance of goods passing through air and road. Marine insurance covers highest portion among all the insurances.

Structure of the Chapter:

Structure of the Chapter:

6.1 Objectives

6.2 Basic Understanding of Marine Insurance

6.3 Parties of Insurance

6.4 Marine Insurance Act, 1963

6.5 Marine Policies

6.6 The Marine Policy Form

6.7 Exclusions

6.8 Time Span

6.9 Institute Cargo Clause (Air)

6.10 Inland Transit (Rail /Road)

6.11 Registered Postal Sending

6.12 Procedure in Cargo Insurance

6.13 Documents

6.14 "Increase Valued" Insurance

6.15 Claims

6.16 Total Loss

6.17 Particular Average

6.18 Salvage Loss

6.19 Sue and Labour Charges

6.20 Recovery From Carriers

6.21 Exercise

6.1 Objectives

By the end of this chapter the student will learn about:

- What is marine insurance
- Different types of contracts in marine insurance
- Inclusion and exclusions in marine insurance businesses
- Procedures in marine insurance

6.2 Marine Insurance:

Since when the international trade has been started the sea route for the export of goods from one country to another country is widely used. It is less costly then other means of transport. However, the sea route exposed to numerous risks. Thus in world, the biggest portion of insurance business is captured by marine insurance policy. Marine insurance is not a new concept in insurance business. Marine Insurance, the oldest branch of insurance, comprises (a) cargo insurance and (b) hull insurance.

Cargo insurance provides insurance cover in respect of loss of or damage to goods during transit by rail, road, sea or air.

Thus cargo insurance 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 rails, road, or air and articles sent by post.

Hull insurance, on the other hand, concerns the insurance of ship (hull, machinery, etc.).

Cargo insurance plays an important role in domestic trade as well as in international trade. Most contracts of sale require that the goods must be covered, either by the seller or the buyer, against loss or damage.

6.3 Parties:

The parties to the contract and the terms of the contract are the decisive factor in a marine insurance policy. In a marine insurance policy, it is important to know that who is going to affect the policy. A contract of sale involves mainly a seller and a buyer, apart from other associated parties like carriers, banks, clearing agents, etc. The question as to who is responsible for effecting insurance on the goods, which are the subject for sale, depends on the terms of the sale contract. The principal types of sale contracts, in so far as marine insurance is directly concerned, are as follows:

Type of contract	Responsibility for Insurance
Free on Board (F.O.B. Contract)	The seller is responsible till the goods are placed on board the steamer. The buyer is responsible thereafter. He can get the insurance done wherever he likes.
Free on Rail (F.O.R. Contract)	The provisions are the same as in (a) above. This is mainly relevant to internal transactions.
Cost & Freight (C & F Contract)	Here also, the buyer's responsibility normally attaches ones the goods are placed on board. He has to take care of the insurance from that point onwards.
Cost, Insurance & freight (C.I.F. Contract)	In this case, the seller is responsible for arranging the insurance. He includes the premium charge as part of the cost of goods in the invoice.

6.4 Marine Insurance Act, 1963:

Matters related to marine insurance are covered under Marine Insurance Act, 1963. This Act provides the legal framework for transaction of marine insurance – both cargo and hull. The act deals with basic principles, basis of valuation under the policies, basis of settlement of losses etc.

6.5 Policies:

A contract of marine insurance is evidenced by the policy and the clauses attached to it. It is very basic and main document for the marine insurance business. The policy form contains only details such as name of the insured, details of shipment or consignment, sum insured, etc. It is the clauses which specify the risk covered, risks excluded and other terms and conditions of insurance.

6.6 Form:

The form contains the following particulars in a marine insurance policy:

1. Name of insured.
2. Policy number
3. Sum insured
4. Premium
5. Stamp duty
6. Steamer or other conveyance
7. Voyage or journey
8. Number and date of bill of lading, rail or lorry or registered post or air freight receipt (as the case may be).

9. Interest to be insured.
10. Clauses to which the insurance is subject
11. Name and address of settling agents to whom notice of claim, if any, is to be given
12. Place where claims are payable
13. Place of issue of policy and date
14. Signature of the authorized person signing on behalf of the insurers

Every marine policy must be stamped in accordance with the provision of the Indian Stamp Act.

6.7 Exclusions:

Main exclusion from the marine insurance policy are:

1. Loss caused by willful misconduct of the insured.
2. Ordinary leakage, ordinary loss in weight or volume or ordinary wear and tear.
3. Loss caused by inherent vice or nature of the subject matter. For example, perishable commodities like fruits, vegetables, etc. may deteriorate without any accident cause.
4. Loss caused by delay, even though the delay be caused by an insured risk.
5. Deliberate damage by the wrongful act of any person.
6. Loss arising from insolvency of financial default of owners, operators, etc. of the vessel. Many ship owners, especially tramp vessel owners, fail to perform the voyage due to financial troubles with consequent loss or damage to cargo. This is not an accidental loss.
7. Loss or damage due to inadequate packing
8. War, and kindred perils
9. Strikes, riots, lock-out, civil commotions and terrorism

6.8 Time Span:

So far as timings of insurance is concerned, it is somewhat different from the other types of policy. Normally, in any insurance policy the time period is one year with the provision renewal of the policy every year. As against "time policies" issued in the other classes of insurance which cover the subject matter for a specified period, usually one year, cargo policies are issued for specified voyage or transit whatever the time taken. It is necessary to be clear as to when exactly risk commences and terminates under a voyage policy.

The cover commences from the time the goods leave the warehouse at the place named in the policy, continues during the ordinary course of transit and terminates either

- On delivery to the consignees' or other final warehouse at the destination named
- On delivery to any intermediate warehouse used by the insured for purposes of storage or distribution or
- On the expiry of 60 days after discharge from the vessel at the final port of discharge

- whichever shall occur first.

The rates of premium in marine insurance depends upon:

- Nature of commodity
- Method of packing
- The Vessel
- Type of insurance cover

6.9 Institute Cargo Clause:

Goods sent by Air can also be insured under the head of Marine Insurance. The related provisions are discussed in the following paragraph:

Risk Covered

Physical loss or damage to the insured goods by any of the following way is covered by this insurance.

- Fire
- Lightning
- Breakage of bridges
- Collision with or by the carrying vehicle
- Overturning of the carrying vehicles
- Derailment or accidents of like nature to the carrying railway wagon / vehicle.

6.10 Inland Transit:

Risk Covered

All risks of loss or damage to the insured goods.

Time Span

The goods when in godown is attached to risk, but the risk attached to the goods in godown is different from the goods during the transit. The goods in transits are required to be insured. The insurance covers the risk attaches from the time the goods leave the warehouse or the place named in the policy for the commencement of transit and continues, during the ordinary course of transit, including customary transshipment, if any, until delivery to the final warehouse at the destination named in the policy. In respect of transits by Rail only or Rail and Road, the risk will be covered until expiry of 7 days after arrival of the railway wagon at the final destination railway station, or in respect of transits by Road only, until expiry of 7 days after arrival of the vehicle at the destination town named in the policy, whichever shall first occur.

6.11 Postal Sending:

There is no standard set of clauses applicable to registered postal sending. The cover attaches from the time of issue of the registered post receipt and terminates on delivery of parcel to the addressee (consignee). For parcels which are valuable, it is warranted that the parcel is insured with the postal authorities.

6.12 Procedure in Cargo Insurance:

Cargo insurance is the insurance for the goods in the transit. In respect of cargo insurance, it is not the practice to use proposal forms. Instead, a declaration form has to be filled up by the proposer. The form does not contain any statement required to be made by the proposer warranting that all the statements made in the form are true.

The form elicits the following information:

1. Name of the shipper or consignor (the insured).
2. Full description of gods to be insured.
3. Method and type of packing, Voyage and Mode of Transit
4. Cover required
5. Name of Steamer

6.13 Documents:

The various documents used in cargo insurance are now explained.

1. Cover Note: as we discussed in the third chapter
2. Marine Policy: as we discussed in the third chapter
3. Open Policy

Open Policy: a policy : Open policy as the name itself suggest is the very wide policy. It is worded in general terms and is issued to take care of all shipments coming within its scope during a particular period of time. Declarations are made under the open policy and these declarations go to reduce the sum insured as per the declaration. Open policies are normally issued for a year. Open policies are generally issued to cover inland consignments.

There are certain advantages of an open policy compared to specified policies. These are:

- Automatic and continuous insurance protection.
- Clerical labour is considerably reduced.

Open Cover: a coverage

This kind of open cover can be considered as special type of policy apart from normal policy. An open cover is particularly useful for large export and import firms numerous regular shipments who would otherwise find it very inconvenient to obtain insurance cover separately for each and every shipment. It is also possible that through an oversight may remain uncovered and should a loss arise in respect of such shipment, it would fall on the insured themselves to be borne by them. In order to overcome such a disadvantage, a permanent form of insurance protection by means of an open cover is taken by big firms having regular shipments. An open cover describes the cargo, voyage and covers in general terms and takes care automatically of all shipments, which fall within its scope. It is usually issued for a period of 12 months and is renewable annually. It is subject to cancellation on either side, i.e., the insurers or the insured, by giving due notice.

6.14 "Increase Valued" Insurance:

Increased Valued insurance is a special type of insurance in which an increase in value of the cargo is taken care. If market value of the goods at destination port on the date of landing is higher than the CIF and Duty value of the cargo then the value of insurance cover would also automatically increased.

6.15 Claims:

Claims may be treated as the reward expected by the insured in case of loss. An insured takes out insurance cover to enable him to recover losses when they arise. They are payable according to the terms and conditions of the policy. The marine perils discussed earlier give rise to different types of losses. The liability under the policy depends firstly, on the loss being caused by an insured peril, and secondly, on being proximately caused by such insured peril.

Claim Documents: documents

When the losses is occurred the claims are to be submitted by the insured to the insurer in certain pre prescribed documents. Claims under marine policies

have to be supported by certain documents which vary according to the type of loss as also the circumstances of the claim and the mode of carriage. Normally, it includes:

1. Policy:
2. Bill of Lading:.
3. Invoice.
4. Survey report:
5. Debit Note:.
6. Copy of Protest:
7. Letter of Subrogation:

Inland Transit Claims: by rail or roads

In regard to claims relating to inland transit, the documents required to be submitted to the insurers in support of the claim are:

1. Original policy or certificate of insurance duly endorsed.
2. Invoice, in original, or copy thereof.
3. Certificate of loss or damage (original) issued by carriers.
4. If goods are totally lost or not delivered, the original railway receipt and / or non-delivery certificate / consignment note.
5. Copy of the claim lodged against the railways / road carriers.
6. Letter of Subrogation, duly stamped.
7. Special Power of Attorney duly stamped. (Railway Claims).
8. Letter of Authority addressed to the railway authorities signed by the consignors in favor of the insurers.
9. Letter of Undertaking from the claimant in case of non-delivery of consignment.

6.16 Total Loss:

The loss occurs due to various perils may be total or partial. If the goods are totally lost by the operation of the marine peril, the measure of indemnity in the event of total loss of the goods is the full insured value. The insurers are entitled to take over the salvage, if any.

6.17 Particular Average:

Damage to the goods due to peril may be of two types, total loss and partial loss. This method applied in a case where there is a partial damage to the goods. Sometimes partial losses caused by marine perils. The particular average losses occur when there is a total loss of part of the goods covered, e.g., a

consignment may consist of 100 packages of which 5 packages may be lost completely. Another way in which particular average loss occurs is when there is a damage to the goods. Where whole or any part of the goods insured is delivered damaged at destination, the percentage of depreciation is ascertained by a surveyor appointed for the purpose, by comparing on the one hand the gross sound market value and, on the other, the gross damaged market value on arrival of the goods at destination. The depreciation expressed as percentage of the insured value under the policy.

6.18 Salvage Loss:

Generally the salvage loss method is used where the goods are of the perishable nature. This is only the practical method of settlement. When the goods insured are damaged during transit, and the nature of the goods is such that they would deteriorate further and would be worthless by the time the vessel arrives at destination, it would be a prudent and sensible to dispose of the same at an intermediate port for the best price obtained. The term 'salvage loss' refers to the amount payable which is the difference between the insured value and the net proceeds of the sale.

6.19 Sue and Labour Charges:

Sue and labour charges are expenses of insured reimbursed by the insurer. Insurers expect that the insured should at all time act as if he was uninsured and take such steps as a prudent person would normally take. In view of this, if there be any expenses incurred by the insured or his agents to minimize the loss or damage payable under the policy, the same are reimbursed by insurers. Examples of such charges, known as Sue and Labour charges, are landing, warehousing, reconditioning and similar charges.

6.20 Recovery:

This is a right of subrogation. As stated earlier, in many marine claims, there are possibilities of recovery from the carriers, i.e., road carriers, railways, steamer companies, etc. after payment of claim, the insurers are subrogated to the right and remedies available to the insured against the carriers or third parties responsible for the loss. The insured is expected to behave at all times as though he was uninsured. He should not, therefore, prejudice the rights of insurers in regard to recovery, and must take all steps to preserve such rights.

6.21 Exercise:

1. **Who are the parties to the marine insurance contracts in different types of marine insurance contracts?**
2. **What are the main inclusions and exclusions in marine insurance contracts?**
3. **When marine insurance contracts starts and when it terminates?**
4. **What are the different types of documents used in marine insurances?**
5. **Explain the meaning of total loss, salvage loss and particular average?**