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INSURANCE AGENTS
SECTION- GENERAL

ACKNOWLEDGEMENT

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The contents are based on prevailing best practices and not intended to give interpretations or solutions in case of disputes, legal or otherwise.

This is only an indicative study material. Please note that the questions in the examination shall not be confined to this study material only.

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PREFACE

Insurance Institute of India, (the Institute) has developed this course material for Corporate Agents based on the syllabus prescribed by Insurance Regulatory and Development Authority of India (IRDAI). Industry experts were involved in preparing the course material.

The course provides basic knowledge of Life, General and Health insurance to enable agents in the respective line of business to understand and appreciate their professional career in the right perspective.

The course is structured as four sections. (1) Overview - a Common section that covers Insurance Principles, Legal Principles and Regulatory matters that Insurance agents need to know. Separate sections are provided for those aspiring to become (2) Life Insurance Agents, (3) General Insurance Agents and (4) Health Insurance Agents.

A set of model questions are included in the course to give students an idea of the examination format and the types of objective questions that may be asked. The model questions will also help them in revising what they have learnt.

Insurance operates in a dynamic environment. Agents need to be up to date about changes in the market. They should actively pursue knowledge through personal study and participation in the in-house training programmes arranged by the respective insurers.

The Institute thanks IRDAI for entrusting this work to the Institute. The Institute wishes all interested in studying the material a successful career in insurance marketing.

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SECTION

GENERAL INSURANCE

CHAPTER G-01
GENERAL INSURANCE DOCUMENTATION

Chapter Introduction

As discussed in Chapter 7, the Proposal form contains information which are useful for the insurance company to accept the risk offered for insurance.

We have seen that in different branches of insurance, the documentation needs are different based on the subject matter insured, type of insurance coverage and the types of claims that can arise.

Learning Outcomes

A. Proposal forms
B. Acceptance of a proposal (underwriting)
C. Premium Receipt
D. Cover Notes/ Certificate of Insurance/ Policy Document
E. Warranties
F. Endorsements
G. Interpretation of Policies
H. Renewal Notice

After studying this chapter, you should be able to:

a) Explain the contents of a Proposal form.
b) Describe the importance of Prospectus
c) Understand the premium receipt.
d) Explain terms and wordings in insurance policy document.
e) Discuss policy conditions and warranties.
f) Appreciate why endorsements are issued.
g) Appreciate why renewal notices are issued.

A. Proposal forms

The Proposal form contains information which are useful for the insurance company to accept the risk offered for insurance. The principle of utmost good faith and the duty of disclosure of material information begin with the proposal form for insurance.

Example

If the insured was required to maintain an alarm or had stated that he has an automatic alarm system in his gold jewellery showroom, then not only is he required to disclose it, he has to ensure the same remains in a working condition throughout the policy period. The existence of the alarm is a material fact for the insurer who will be accepting the proposal based on these facts and pricing the risk accordingly.

1. Nature of questions in a proposal form

The number and nature of questions in a proposal form vary according to the class of insurance concerned.

i. **Fire insurance** proposal forms are usually used for relatively simple/ standard risks like houses, shops etc. For large industrial risks, inspection of the risk is arranged by insurer before acceptance of the risk. Special questionnaire are sometimes used in addition to the proposal form to gather specific information.

   Fire insurance proposal form seeks, among other things, the description of the property which would include the following information:

   - ✓ Construction of external walls and roof, number of story
   - ✓ Occupation of each portion of the building
   - ✓ Presence of hazardous goods
   - ✓ Process of manufacture including raw material and finished goods
   - ✓ The sums proposed for insurance
   - ✓ The period of insurance, etc.

ii. **For motor insurance,** questions are asked about the vehicle, its operations, make and carrying capacity, how it is managed by the owner and related insurance history.

iii. **In personal lines** like health, personal accident and travel insurance, proposal forms are designed to get information about the proposer's health, way of life and habits, pre-existing health conditions, medical history, hereditary traits, past insurance experience etc.

iv. In other miscellaneous insurances, proposal forms are compulsory and they incorporate a declaration which extends the common law duty of good faith.

2. Elements of a proposal

i. Proposer's name in full

The proposer should be able to identify himself/ herself unambiguously. It is important for the insurer to know with whom the contract has been entered, so that the benefits under the policy would be received only by the insured.

ii. Proposer's address and contact details

The reasons stated above are applicable for collecting the proposer's address and contact details as well.

iii. Proposer's profession, occupation or business

In some cases like health and personal accident insurance, the proposer's profession, occupation or business are of importance as they could have a material bearing on the risk.

iv. Details and identity of the subject matter of insurance

The proposer is required to clearly state the subject matter that is proposed for insurance.

Example

The proposer is required to state if it is:

- **i.** A private car [with its identification like engine number, chassis number, registration number] or
- **ii.** A residential house [with its full address and identification numbers] or
- **iii.** An overseas travel [by whom, when, to which country, for what purpose] or
- **iv.** A person's health [with person's name, address and identification] etc. depending on the case
- **v.** **Sum insured** indicates limit of liability of the insurer under the policy and has to be indicated in all proposal forms.
- **vi.** **Previous and present insurance**: As seen in the common chapters, the proposer is required to inform the details about his previous insurances to the insurer.

  In property insurance, there is a chance that insured may take policies from different insurers and when a loss happens, claim from more than one insurer. This information is required to ensure that the principle of contribution is applied so that the insured is indemnified and does not gain/ profit due to multiple insurance policies for the same risk.

Further, in personal accident insurance an insurer would like to restrict the amount of coverage (sum insured) depending on the sum insured under other PA policies taken by the same insured.

vii. Loss experience

The proposer is asked to declare full details of all losses suffered by him/ her, whether or not they were insured. This will give the insurer information about the subject matter of insurance and how the insured has managed the risk in the past. Underwriters can understand the risk better from such answers and decide on conducting risk inspections or collecting further details.

viii. Declaration by insured

As the purpose of the proposal form is to provide all material information to the insurers, the form **includes a declaration by the insured that the answers are true and accurate and he agrees that the form shall be the basis of the insurance contract.** Any wrong answer will give the right to insurers to avoid the contract. Other sections common to all proposal forms relate to **signature, date and in some cases agent's recommendation.**

B. Acceptance of the Proposal (underwriting)

As seen earlier, a completed proposal form broadly gives the following information:

- ✓ Details of the insured
- ✓ Details of the subject matter
- ✓ Type of cover required
- ✓ Details of the physical features both positive and negative - including type and quality of construction, age, presence of fire-fighting equipment, the type of security etc.,
- ✓ Previous history of insurance and loss

In the case of property, motor or cargo insurance, the insurer may also arrange for pre-inspection survey of the risk before acceptance, depending on the nature and value of the risk. Insurers take their decision based on the information available in the proposal, the risk inspection report, answers to the additional questionnaire and other documents (as may be called for by the insurer). The insurer then decides about the rate to be applied to the risk factor and calculates the premium based on various parameters, which is then conveyed to the insured. Proposals are processed by the insurer with speed and efficiency and all decisions thereof are communicated by it in writing within a reasonable period.

Definition

Underwriting: As per Protection of Policyholders' Interests) Regulations, 2017, the company has to process the proposal within 15 days' time. The agent is expected to keep track of these timelines, follow up internally and communicate with the prospect/ insured as and when required by way of customer service. This entire process of scrutinizing the proposal and deciding about acceptance is known as underwriting.

Test Yourself 1

As per Protection of Policyholders' Interests) Regulations, 2017, an insurance company has to process an insurance proposal within __________.

I. 7 days

II. 15 days

III. 30 days

IV. 45 days

C. Premium Receipt

Premium is the consideration or amount paid by the insured to the insurer for insuring the subject matter of insurance, under a contract of insurance. As discussed in Chapter 4, the Agent should be always mindful that the **premium is to be paid in advance, before the inception date of the insurance contract** as per Section 64 VB of the Insurance Act.

Important

a) Section 64 VB of the Insurance Act-1938 provides that no insurer shall assume any risk unless and until the premium is received in advance or is guaranteed to be paid or a deposit is made in advance in the prescribed manner. Insurance Rules 58 and 59 provide certain exceptions to this condition of advance payment of premium in some situations.

b) Where an insurance agent collects a premium on a policy of insurance on behalf of an insurer, he shall deposit with or dispatch by post to the insurer the premium so collected in full without deduction of his commission within twenty-four hours of the collection excluding bank and postal holidays.

c) It is also provided that the risk may be assumed only from the date on which the premium has been paid in cash or by cheque.

d) Where the premium is tendered by postal or money order or cheque sent by post, the risk may be assumed on the date on which the money order is booked or the cheque is posted as the case may be.

e) Any refund of premium which may become due to an insured on account of the cancellation of policy or alteration in its terms and conditions or otherwise, shall be paid by the insurer directly to the insured by a crossed or order cheque or by postal/ money order or by Electronic Mode and a proper receipt shall be obtained by the insurer from the insured, and such refund shall in no case be credited to the account of the agent.

D. Cover Notes/ Certificate of Insurance/ Policy Document

After underwriting is completed it may take some time before the policy is issued. **Pending the preparation of the policy or 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,** a cover note is issued to confirm protection under the policy. It gives description of cover. Sometimes, insurers issue a letter confirming the provisional insurance cover instead of a cover note.

Although the cover note is not stamped, the wording of the cover note makes it clear that it is subject to the usual terms and conditions of the insurers' policy for the class of insurance concerned. If the risk is governed by any warranties, then the cover note would state that the insurance is subject to such warranties. The cover note is also made subject to special clauses, if applicable e.g. Agreed Bank Clause, Declaration Clause etc.

A cover note would incorporate the following:

a) Name and address of insured
b) Sum insured
c) Period of insurance
d) Risk covered
e) Rate and premium: if rate is not known, the provisional premium
f) **Description of the risk covered**: for example a fire cover note would indicate identification particulars of the building, its construction and occupancy.
g) Serial number of the cover note
h) Date of issue
i) **Validity of cover note** is usually for a period of a fortnight and rarely up to 60 days

Cover notes are used predominantly in marine and motor classes of business.

1. Marine Cover Notes

These are normally issued when details required for the issue of policy such as name of the steamer, number of packages, or exact value etc. are not known. Even in respect of exports, a cover note may be issued e.g. a certain quantity of cargo meant for shipment is sent by the exporter to the docks. It may happen that, owing to difficulty of securing adequate shipping space, shipment of the cargo by the intended vessel does not take place. The quantity therefore, that may be sent by a particular vessel cannot be known. In the circumstances, a cover note may be required which is to be followed subsequently by the issue of regular policy when full details are available and made known to the insurance company.

Marine cover note may be worded along the following lines:

i. Marine Cover Note Number
ii. Date of issue
iii. Name of the insured
iv. Valid up to

"As requested, you are hereby held covered subject to usual conditions of the company's policy to the extent of Rs. _____________."

a) **Clauses:** Institute Cargo Clauses A, B or C including War SRCC risks as per Institute Clauses, but subject to 7 days' notice of cancellation.
b) **Conditions:** Details of shipment to be supplied on receipt of shipping documents for issue of policy. In the event of loss or damage prior to declaration and/ or shipment on board the steamer, it is hereby agreed that the basis of valuation shall be prime cost of the goods plus charges actually incurred and for which the assured is liable.

With regard to inland transit normally all relevant data required for issue of policy are available and therefore a cover note is rarely required. There may however, be some occasions when cover notes are issued and substituted later on by policies containing full description of the cargo, transit etc.

2. Motor Cover Notes

These are to be issued in the form prescribed by the respective companies the operative clause of a motor cover note may read as follows:

"The insured described in the form, referred to below, having proposed for insurance in respect of the Motor Vehicle(s) described therein and having paid the sum of Rs….as premium the risk is hereby held covered under the terms of the company's usual form of……Policy applicable thereto (subject to any Special Conditions mentioned below) unless the cover be terminated by the Company by notice in writing in which case the insurance will thereupon cease and a proportionate part of the premium otherwise payable for such insurance will be charged for the time the company had been on risk."

The Motor Cover Note generally contains the following particulars:

a) Registration mark and number, or description of the vehicles insured/ cubic capacity/ carrying capacity/ make/ year of manufacture, engine number, chassis number
b) Name and address of the insured
c) Effective date and time of commencement of insurance for the purpose of the Act. Time……, Date……
d) Date of expiry of insurance
e) Persons or classes of persons entitled to drive
f) Limitations as to use
g) Additional risks, if any

The Motor Cover Note incorporates a certificate to the effect that it is issued in accordance with the provisions of Chapters X and XI of the Motor Vehicles Act, 1988.

Important

The validity of the Cover Note may be extended for a further period of 15 days at a time, but in, but in no case the total period of validity of a Cover Note shall exceed sixty days.

Note: The wordings of the cover note may vary from insurer to insurer

Use of cover notes is being discouraged by most companies. Present day technology facilitates issuance of policy document immediately.

3. Certificate of Insurance – Motor Insurance

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

MOTOR VEHICLES ACT, 1988

CERTIFICATE OF INSURANCE

Certificate No. Policy No.

1. Registration mark and Number, Place of registration, Engine No./Chassis No./ Make/ Year of manufacture.
2. Type of Body/ C.C/ Seating capacity/ Net Premium/ Name of Registration Authority,
3. Geographical area – India. `
4. Insured declared value (IDV)
5. Name and address of the Insured, Business or profession.
6. Effective date of commencement of Insurance for the purpose of the Act. From………. 'O' clock on ………
7. Date of expiry of insurance: midnight on ……………
8. Persons or classes of persons entitled to drive.

Any of the following:

(a) The insured:

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

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

LIMITATIONS AS TO USE

The policy covers use for any purpose other than:

(a) Hire or reward; (b) Carriage of goods (other than personal luggage) (c) Organised racing, (d) Race making, (e) Speed testing (f) Reliability Trials (g) Any purpose in connection with Motor Trade. I/ we hereby certify that the Policy to which this Certificate relates as well as this Certificate of Insurance are issued in accordance with the provisions of Chapter X and Chapter XI of the Motor Vehicles Act, 1988. Examined .... (Authorized Insurer)

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

4. Policy Document

The policy is a formal document which provides an evidence of the contract of insurance. This document has to be stamped in accordance with the provisions of the Indian Stamp Act, 1899.

A general insurance policy usually contains:

a) The name(s) and address(es) of the insured and any other person having insurable interest in the subject matter;
b) Full description of the property or interest insured;
c) The location/ s of the property or interest insured under the policy and where appropriate, with respective insured values;
d) Period of insurance;
e) Sums insured;
f) Perils covered and exclusions ;
g) Any excess/ deductible applicable;
h) Premium payable and where the premium is provisional subject to adjustment, the basis of adjustment of premium ;
i) Policy terms, conditions and warranties;
j) Action to be taken by the insured upon occurrence of a contingency likely to give rise to a claim under the policy;
k) The obligations of the insured in relation to the subject-matter of insurance upon occurrence of an event giving rise to a claim and the rights of the insurer in the circumstances;
l) Any special conditions ;
m) Provision for cancellation of the policy on grounds of misrepresentation, fraud, non-disclosure of material facts or non-cooperation of the insured;
n) The address of the insurer to which all communications in respect of the policy should be sent;
o) The details of Add–on covers and/ or Endorsements if any;
p) Details of Grievance Redressal mechanism and address of Ombudsman

Test Yourself 1

Which of the following statements is true with regards to cover notes?

I. Cover notes are predominantly used in life insurance
II. Cover notes are predominantly used in all classes of general insurance
III. Cover notes are predominantly used in health insurance
IV. Cover notes are predominantly used in marine and motor classes of general insurance

E. Warranties

A warranty is a condition expressly stated in the policy which has to be literally complied with for validity of the contract. Warranty is not a separate document. It is part of both cover notes and policy document. It is a condition precedent to the contract. It must be observed and complied with strictly and literally, irrespective of the fact whether it is material to the risk or not. If a warranty is breached, the policy becomes voidable at the option of the insurers even when it is clearly established that the breach has not caused or contributed to a particular loss. However, in practice, if the breach of warranty is of a purely technical nature and does not, in any way, contribute to or aggravate the loss, insurers at their discretion may process the claims according to norms and guidelines as per company policy.

1. **Fire Insurances warranties (some examples) are as given below**

Warranted, that no hazards goods shall be stored in the insured premises during the currency of policy.

Silent Risk: Warranted that no manufacturing activity is carried out in the insured premises for consecutive period of 30 days or more.

Cigarette Filter Manufacturing: Warranted that no solvents having flash point below 30^0C are used/ stored in the premises

2. In **Marine Insurance, a warranty** is defined as follows: "a promissory warranty, that is to say, a warranty by which the assured undertake that some particular thing shall or shall not be done, or that some condition will be fulfilled, or whereby he affirms or negates the existence of a particular state of facts"

In **Marine Cargo Insurance, a warranty** is inserted to the effect that goods (e.g. tea) are packed in tin-lined cases. In **Marine Hull insurance by inserting a warranty** that the insured vessel will not navigate in a certain area, gives an idea to the insurer about the extent of risk he has agreed to provide cover for. If the warranty is breached, the risk agreed to initially is altered and the insurer is allowed to discharge himself from further liability from the date of breach

3. In **Burglary Insurance**, it is warranted that the property is guarded by a watchman for twenty four hours. The rates, terms and conditions of the policy

continue to be the same only if the warranties attached to the policy are complied with.

Test Yourself 2

Which of the following statements is correct with regards to a warranty?

I. A warranty is a condition which is never stated in the policy
II. A warranty forms part of a policy document
III. A warranty is always communicated to the insured separately and cannot be part of the policy document
IV. Claims will be payable even if a warranty is breached.

F. Endorsements

It is the practice of insurers to issue policies in a standard form; covering certain perils and excluding certain others.

Definition

If certain terms and conditions of the policy need to be modified at the time of issuance, or during the policy tenure, it is done by setting out the amendments/ changes through a document called endorsement.

It is attached to the policy and forms part of it. The policy and the endorsement together constitute the evidence of the contract. Endorsements may also be issued during the currency of the policy to record changes/ amendments.

Whenever material information changes, the insured has to advice the insurance company who will take note of this and incorporate the same as part of the insurance contract through the endorsement.

Endorsements normally required under a policy related to:

a) Variations/ changes in sum insured
b) Change of insurable interest by way of sale, mortgage, etc.
c) Extension of insurance to cover additional perils/ extension of policy period
d) Change in risk, e.g. change of construction, or occupancy of the building in fire insurance
e) Transfer of property to another location
f) Cancellation of insurance
g) Change in name or address etc.

Specimen

For the purpose of illustration, specimen wordings of some endorsements are reproduced below:

Cancellation

At the request of the insured the insurance by this Policy is hereby declared to be cancelled as from ………. The insurance having been in force for a period over …………. Months, no refund is due to the Insured.

Increase in Stock Value Cover:

"The Insured having advised that the stock covered by this policy has been increased it is hereby agreed that the sum insured is accordingly altered to Rs..... discussed as follows:

On (Describe) Rs.
On (Describe) Rs.

In consideration whereof an additional premium is hereby charged.
Further annual premium Rs……….

The total insurance now stands at Rs …….

Subject otherwise to the terms, provisions and conditions of this policy.

Extension of cover to include extraneous peril in a Marine Policy

At the request of the insured, it is hereby agreed to include the risks of breakage under the above policy.

In consideration, thereof an additional premium as under is charged to the insured on Rs.

Test Yourself 3

If certain terms and conditions of the policy need to be modified at the time of issuance, or during the policy tenure it is done by setting out the amendments through __________.

I. Warranty
II. Endorsement
III. Alteration
IV. Modifications are not possible

G. Interpretation of policies

Contracts of insurance are expressed in writing and the insurance policy wordings are drafted by insurers. These policies have to be interpreted according to certain well-defined rules of construction or interpretation which have been established by various courts. **The most important rule of construction is that the intention**

of the parties must prevail and this intention is to be looked for in the policy itself. If the policy is issued in an ambiguous manner, it will be interpreted by the courts in favour of the insured and against the insurer on the general principle that the policy was drafted by the latter.

Policy wordings are understood and interpreted as per the following rules:

a) An express condition overrides an implied condition except where there is inconsistency in doing so.
b) In the event of a contradiction in terms between the standard printed policy form and the typed or handwritten parts, the typed or handwritten part is deemed to express the intention of the parties in the particular contract, and their meaning will overrule those of the original printed words.
c) If an endorsement contradicts other parts of the contract the meaning of the endorsement will prevail as it is the later document.
d) Clauses in italics over-ride the ordinary printed wording where they are inconsistent.
e) Clauses printed or typed in the margin of the policy are to be given more importance than the wording within the body of the policy.
f) Clauses attached or pasted to the policy override both marginal clauses and the clauses in the body of the policy.
g) Printed wording is over-ridden by typewritten wording or wording impressed by an inked rubber stamp.
h) Handwriting takes precedence over typed or impressed wording.
i) Finally, the ordinary rules of grammar and punctuation are applied if there is any ambiguity or lack of clarity.

Important

1. Construction of policies

An insurance policy is evidence of a commercial contract and the general rules of construction and interpretation adopted by courts apply to insurance contracts as in the case of other contracts.

The principal rule of construction is that the intention of the parties of the contract must prevail, that intention must be gathered from the policy document itself and the proposal form, clauses, endorsements, warranties etc. attached to it and forming a part of the contract.

2. Meaning of wordings

The words used are to be construed in their ordinary and popular sense. **The meaning to be used for words is the meaning that the ordinary man in the street would construe. Thus, "fire" means flame or actual burning.**

On the other hand, **words which have a common business or trade meaning will be construed with that meaning unless the context of the sentence indicates otherwise**. Where words are defined by statute, the meaning of that definition will be used, such as "theft" as in the Indian Penal Code.

Many words used in insurance policies have been the subject of previous legal decisions and those decisions of a higher court will be binding on a lower court decision. Technical terms must always be given their technical meaning, unless there is an indication to the contrary.

H. Renewal Notice

Most of the non-life insurance policies are insured on annual basis.

Although there is no legal obligation on the part of insurers to advise the insured that his policy is due to expire on a particular date, yet as a matter of courtesy and healthy business practice, insurers issue a renewal notice in advance of the date of expiry, inviting renewal of the policy. The notice incorporates all the relevant particulars of the policy such as sum insured, the annual premium, etc. It is also the practice to include a note advising the insured that he should intimate any material alterations in the risk.

In motor renewal notice, for example, the insured's attention is to be drawn to revise the sum insured (i.e. the Insured's Declared Value of the vehicle) in the light of current requirements.

The insured's attention is also to be invited to the statutory provision that no risk can be assumed unless the premium is paid in advance.

Test Yourself 4

Which of the following statements is correct with regards to renewal notice?

I. As per regulations there is a legal obligation on insurers to send a renewal notice to insured, 30 days before the expiry of the policy
II. As per regulations there is a legal obligation on insurers to send a renewal notice to insured, 15 days before the expiry of the policy
III. As per regulations there is a legal obligation on insurers to send a renewal notice to insured, 7 days before the expiry of the policy
IV. As per regulations there is no legal obligation on insurers to send a renewal notice to insured before the expiry of the policy

Summary

a) The first stage of documentation is essentially the proposal forms through which the insured informs about himself/ herself
b) The duty of disclosure of material information arises prior to the inception of the policy, and continues even after the conclusion of the contract
c) Insurance companies usually add a declaration at the end of the Proposal form to be signed by the insurer
d) Elements of a proposal form include:
   i. Proposer's name in full
   ii. Proposer's address and contact details
   iii. Proposer's profession, occupation or business
   iv. Details and identity of the subject matter of insurance
   v. Sum insured
   vi. Previous and present insurance
   vii. Loss experience
   viii. Declaration by the insured
e) An agent, who acts as the intermediary, has the responsibility to ensure all material information about the risk is provided by the insured to insurer.
f) The process of scrutinising the proposal and deciding about acceptance is known as underwriting.
g) Premium is the consideration or amount paid by the insured to the insurer for insuring the subject matter of insurance, under a contract of insurance.
h) Payment of premium can be made by cash, any recognised banking negotiable instrument, postal money order, credit or debit card, internet, e-transfer, direct credit or any other method approved by IRDAI from time to time.
i) A cover note is issued when preparation of policy is pending or when negotiations for insurance are in progress and it is necessary to provide insurance cover on provisional basis.
j) Cover notes are used predominantly in marine and motor classes of business.
k) A certificate of insurance provides existence of insurance in cases where proof may be required
l) The policy is a formal document which provides an evidence of the contract of insurance.
m) A warranty is a condition expressly stated in the policy which has to be literally complied with for validity of the contract.
n) If certain terms and conditions of the policy need to be modified at the time of issuance or during the policy tenure, it is done by setting out the amendments/ changes through a document called endorsement.
o) The most important rule of construction is that the intention of the parties must prevail and this intention is to be looked for in the policy itself.

Key Terms

a) Policy form
b) Advance payment of premium
c) Cover note
d) Certificate of Insurance
e) Renewal notice
f) Warranty

Answers to Test Yourself

Answer 1 - The correct option is II.
Answer 2 - The correct option is IV.
Answer 3 - The correct option is II.
Answer 4 - The correct option is II.
Answer 5 - The correct option is IV.

CHAPTER G-02
UNDERWRITING AND RATE MAKING

Chapter Introduction

We have learnt various concepts and principles related to general insurance. Underwriting is the process by which the Insurer decides whether to accept a risk or not. For this, the underwriters analyse the risk. They understand how risky the risk is. Also, how much of money should be collected as premium. Again, sometimes the risks can be accepted only subject to conditions to improve the risk. All these angles are discussed in this chapter.

Learning Outcomes

A. Physical Hazards
B. Physical Hazards –Importance of Risk Management, Clauses and Rating
C. Deciding on Excess/ Deductibles and Restricting the Cover
D. Moral Hazard
E. Fixing the Sum Insured

After studying this chapter, you should be able to:

1. Understand Physical hazards
2. Appreciate Underwriting as a function
3. Methods used by underwriters to reduce the risk
4. Understand how the Sum Insured is fixed.

A. Physical Hazards

A thorough knowledge of various hazards to which property and persons are exposed is most essential for underwriting.

Physical hazard can be ascertained from the information given in a proposal form. It can be better ascertained by a survey or inspection of the risk. The following are some examples of physical hazard in various classes of insurance.

a) Fire

i. **Construction:** Construction refers to the building materials used in walls and roof. A concrete building is superior to a timber building.

ii. **The height:** Greater the number of storey's, the greater the hazard because of difficulties of extinguishing fire. Besides, a greater number of floors involve risk of collapse of the upper floors causing heavy impact damage.

iii. **Nature of flooring:** Wooden floors add fuel to fire. Besides, wooden floors collapse easily in the event of fire, causing damage to property on lower floors through falling machinery or goods from upper floors.

iv. **Occupancy:** The occupancy of a building, and the purpose for which it is used. Various types of hazards arise from occupancy.

v. **Ignition hazard:** Buildings in which chemicals are produced or used in large quantity involve a considerable **ignition hazard**. A timber yard presents a **high combustibility hazard** because once a fire starts, timber burns quickly. The contents may be highly susceptible to damage in the event of fire.

   For example, paper, clothing etc. are susceptible not only to fire damage but also to damage by water, heat etc.

vi. **The process of manufacture:** If work is carried during the night, the hazard is increased due to the use of artificial lights, continuous use of machinery leading to friction and the likely carelessness of workers due to fatigue.

vii. **Situation/ location of risk:** Location in a congested area, exposure to hazardous adjacent premises and distance from the fire brigade is an example of physical hazard.

b) Marine

i. **The age and condition of vessel: Older vessels are inferior risks.**

ii. **The voyage to be undertaken: The route of the voyage, loading and unloading conditions and warehousing facilities at the ports are factors.**

iii. **The nature of the stocks: Articles of high value are exposed to theft; machinery is liable to breakage in transit.**

iv. **The method of packing: Cargo packed in bales is considered to be better than cargo in bags. Again, double bags are safer than single bags. Liquid cargo in second-hand drums constitute bad physical hazard.**

c) Motor

i. **The age and condition of the vehicle:** Older vehicles are more prone to accidents.

ii. **The type of vehicle:** Sports cars involve greater physical hazard etc.

d) Burglary

i. **The nature of the stocks:** Articles of high value in small bulk (e.g. Jewellery) and easily disposable are considered to be bad risks.

ii. **Situation:** Ground floor risks are inferior to upper floor risks: private dwellings situated in isolated areas are hazardous.

iii. **Constructional hazard**: Too many doors and windows constitute bad physical hazard.

e) Personal accident

i. **The age of the person:** Very old persons are accident prone; besides they will take longer to recover in the event of an accident.

ii. **Nature of occupation:** Jockeys, mining engineers, manual workers are examples of bad physical hazard.

iii. **Health and physical condition:** A person suffering from Diabetes may not respond to surgical treatment in the event of accidental bodily injury.

B. Physical Hazards – Importance of Risk Management, Clauses and Rating

Underwriters use the following methods to deal with physical hazards:

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

a) Loading of premium

There may be some adverse features in a risk exposure for which the underwriters may decide to charge an extra premium before acceptance of the same. By loading the premium the higher probability of claims or occurrence of large claims is taken into consideration.

Example

Normal rate of premium is charged for cargo shipped by liners or other vessels, which comply with the prescribed standards. However, if an over-aged or under-tonnage vessel ships the cargo then extra premium is charged.

In personal accident insurance if the insured is engaged in hazardous pursuits like mountaineering, racing on wheels, big game hunting etc. extra premium is charged.

Sometimes loading of premium is also done for adverse claims ratio, as in case of motor insurance or health insurance policies.

b) Imposition of warranties

Insurers incorporate appropriate warranties to reduce the physical hazard. Some examples are provided below.

Example

i. **Marine cargo:** A warranty is inserted to the effect that goods (e.g. Tea) are packed in tin lined cases.

ii. **Burglary:** It is warranted that the property is guarded by a watchman for twenty four hours.

iii. **Fire:** In fire insurance, it is warranted the premises would not be used beyond normal working hours.

iv. **Motor:** It is warranted that the vehicle will not be used for speed testing or racing.

Example

Marine cargo: Small damage to parts may cause costly machinery to be a constructive total loss. Such machinery are subject to the Replacement Clause, which limits underwriter's liability only to the cost of replacing, forwarding and refitting any broken part.

Cast pipes, hard board sometimes get damaged only at the edges. Marine policies on cast pipes, hardboard etc., are subject to the cutting clause warranting that the damaged portion should be cut off and the balance utilised.

c) Deciding on Excess/ Deductibles and Restricting the Cover

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

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

Example

i. **Motor**: A proposal for an old motor vehicle will not be accepted on comprehensive terms but insurers will offer a restricted cover i.e. against third party risks only.

ii. **Personal accident**: A personal accident proposer who has crossed the maximum acceptance age limit may be covered for death risk only instead of on comprehensive terms i.e. including disablement benefits.

d) Discounts

Lower rates are charged or a discount is given in the normal premium if the risk is favourable. The following features are considered to contribute to improvement of risk in fire insurance.

i. Installation of sprinkler system within the premises

ii. Installation of hydrant system in the compound

iii. Installation of hand appliances consisting of buckets, portable extinguishers and manual fire pumps

iv. Installation of automatic fire alarm

Example

Under **motor insurance** a discount in the premium is provided if the motor cycle is always used with a side-car attached, as this feature contributes to improved risk because of the greater stability of the vehicle.

In **marine insurance**, the insurer may consider giving discounts on premium for “Full Load” container as this reduces the incidence of theft and shortage.

Under a **group personal accident** cover, discounts would be given for coverage of a large group, which reduces the administrative work and expenses of the insurer.

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e) No claim bonus (NCB)

A certain percentage is given as bonus for every claim free renewal year with a limit to the maximum bonus that can be availed. It is allowed by way of deduction on the total premium at renewal only, depending upon the incurred claim ratio for the entire group or to Motor vehicle Own damage policy holders for claim free years.

No claim bonus is a powerful strategy to improve underwriting experience and forms an integral part of rating systems. This bonus recognises the factor of moral hazard in the insured. It rewards the insured for not lodging claims either by adopting better driving skills as in motor insurance or taking better care of his health in Health policies.

f) Declinature

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

C. Moral hazard

Moral hazard could arise in the following ways:

a) Dishonesty

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

b) Carelessness

Indifference towards loss is an example of carelessness. Because of the existence of insurance, the insured may tend to adopt a careless attitude towards the insured property.

If the insured does not take the same care of the property as a prudent and reasonable man would if he were uninsured the moral hazard is unsatisfactory.

c) Industrial relations

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

d) Wrong claims

This kind of moral hazard arises when claims occur. An insured may not deliberately bring about a loss but once a loss occurs, he would attempt to demand unreasonably high amount of compensation, in total disregard of the principle of indemnity.

Information

Sub-limits: The insurer may impose a limit on the total pay-out separately each for room expenses, surgical procedures or doctor fees to check the inflated bills.

Where the moral hazard of the insured is suspected, the agent should not entertain or bring such proposals to the insurance company. S/ he should also bring such issues before the insurance company officials.

1. Short period scales

Normally, premium rates are quoted for a period of twelve months. If a policy is taken for a shorter period, the premium is charged according to a special scale, known as short period scale. The premium chargeable for short period insurance is not on proportionate basis.

Need for short period scales

a) These rates are applied because the expenses involved in the issue of the policy whether for a 12 months period or a shorter period, are almost the same.

b) Further, an annual policy requires renewal procedure only once during a year whereas short period insurances involve more frequent renewals. If a proportionate premium is allowed, there would be a tendency on the part of the insured to go on taking short period policies and thereby, in effect, pay premiums in instalments.

c) Besides, some insurance are seasonal in character and the risk is greater during that season. Insurances are sometimes taken during such period when the risk is greatest and thereby selection takes place against the insurers. Short period scales are evolved to prevent such selection against the insurers. They are also applicable when annual insurance is cancelled by the insured. In that case refund is made keeping the premium on short period scale for the period Insurer was in risk.

Minimum premium

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

Test Yourself 1

What is expected of an agent when she detects a moral hazard?

I. Continue with the insurance as before

II. Report the same to the insurer

III. Ask for a share in the claims

IV. Turn a blind eye

D. Fixing the Sum Insured

It's the maximum amount that an insurance company will indemnify as per policy condition. An insured has to be very careful in choosing the limit of indemnity, because that is the maximum amount that would be reimbursed at the time of claim.

The sum insured is always fixed by the insured. It is an amount on which rate is applied to arrive at the premium under the policy.

It should be representative of the actual value of the property. If there is over insurance, no benefit accrues to the insured and in case of under insurance, the claim gets proportionately reduced.

Deciding the sum insured

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

a) **Personal accident insurance**: The sum insured offered by a company can be a fixed amount or it can also be based on the insured's income. Some insurance companies may give a benefit equal to 60 times or 100 times of the insured's monthly income for a particular disability. There could be an upper limit or 'cap' on the maximum amount. Compensations can vary from company to company. In group personal accident policies the sum insured may be fixed separately for each insured person or may be linked to emoluments payable to the insured person.

b) **Motor insurance**: In case of motor insurance the sum insured is the insured's declared value [IDV]. It is the value of the vehicle, which is arrived at by adjusting the current manufacture's listed selling price of the vehicle with depreciation percentage as prescribed in the erstwhile India Motor Tariff. Manufacturer's listed selling price will include local duties/ taxes excluding registration and insurance.

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

   The IDV of vehicles that are obsolete or aged over 5 years is calculated by mutual agreement between insurer and the insured. Instead of depreciation, IDV of old cars is arrived at by assessment of vehicle's condition done by surveyors, car dealers etc.

   IDV is the amount of compensation given in case a vehicle is stolen or suffers total loss. It is highly recommended to get IDV which is near the market value of the car. Insurers provide a range of 5% to 10% to decrease IDV to the insured. Less IDV would mean lesser premium.

c) **Fire insurance:** In fire insurance the sum insured may be fixed on the basis of indemnity or reinstatement value for buildings/ plant and machinery and fixtures. Contents are covered on the basis of their market value which is cost of the item less depreciation. (Reinstatement value is explained in detail in Chapter 28 - Commercial Insurance)

d) **Stocks insurance:** In case of stocks, sum insured is their market value. The insured will be reimbursed at the cost at which these stocks can be purchased in the market to replace the damaged raw material, after the loss.

e) **Marine cargo insurance:** It is an agreed valued policy and the sum insured is as per the agreement between insurer and insured at the time of contract. Normally it would consist of the sum of cost of the commodity plus Insurance + freight i.e. CIF value.

f) **Marine hull insurance:** In marine hull insurance, the sum insured is the value, agreed between the insured and the insurer at the beginning of the contract. This value would be arrived at by a certified valuer after an inspection of the hull/ ship.

g) **Liability insurance:** In case of liability policies, the sum insured is the liability exposure of the industrial units based on the degree of exposure, geographical spread. Additional legal costs and expenses may also form part of claim compensation. The sum insured is decided by the insured based on the above parameters.

Test Yourself 2

Suggest an insurance scheme for a doctor to protect himself from any claims of negligence against him.

I. Personal accident insurance

II. Professional Liability insurance

III. Marine hull insurance

IV. Health insurance

Summary

a) Process of classifying risks and deciding into which category they fall is important for rate making.

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

c) A rate is the price of a given unit of insurance.

d) The basic objective of rate making is to ensure that price of insurance should be adequate and reasonable.

e) 'Pure premium' is suitably loaded or increased by adding percentages to provide for expenses, reserves and profits.

f) The term hazard in insurance language refers to those conditions or features or characteristics which create or increase the chance of loss arising from a given peril.

g) The objective of imposing deductible/ excess clauses is to eliminate small claims.

h) No claim bonus is a powerful strategy to improve underwriting experience and forms an integral part of rating systems.

i) Sum insured is the maximum amount that an insurance company will indemnify as per policy condition.

Key terms

a) Underwriting

b) Rate making

c) Physical hazards

d) Moral hazards

e) Indemnity

f) Loading of premium

g) Warranties

h) Deductibles

i) Excess

Answers to Test Yourself

Answer 1 - The correct option is II.

Answer 2 - The correct option is II.

CHAPTER G-03
PERSONAL AND RETAIL INSURANCE

Chapter Introduction

In the previous chapters we have learnt various concepts and principles related to general insurance. General insurance products are classified differently in different markets. Some classify them as property, casualty and liability. Elsewhere, they are grouped as fire, marine, motor and miscellaneous. In this chapter, common products such as personal accident, travel, home and shop keepers and motor insurance that are bought by such retail customers are discussed.

Learning Outcomes

A. Retail Insurance Products
B. 'All Risks' and ‘Named Perils’ Insurance Policy
C. Package policies
D. Shopkeeper’s Insurance
E. Householder’s Insurance
F. Sum Insured and Premium
G. Motor Insurance

After studying this chapter, you should be able to:

1. Explain householder’s insurance
2. Prepare shop insurance cover
3. Discuss motor insurance

A. Retail Insurance Products

There are some insurance products that are purchased for individuals for covering certain interests. Though small commercial or business interests could be there for such insurances, these are generally sold to individuals. In some markets these are called 'small ticket' policies or 'retail policies' or 'retail products'. Insurances of the home, motor cars, two-wheelers, small businesses like shops etc. fall under this category. These products are usually sold by the same agents/ distribution channels that deal with personal lines of insurance as the buyers also are essentially from the same consumer segment.

B. 'All Risks' and 'Named Perils' Insurance Policy

Non-life insurance policies can be broadly classified into two categories:

- ✓ Named peril policies
- ✓ All risk policies

i. "All risks" typically means that <u>any risk</u> that the insurance contract does not specifically exclude is covered, subject to terms and conditions.

ii. All-risks insurance is the most comprehensive type of coverage available. It is therefore priced proportionately higher than other types of policies, and the cost of this type of insurance is measured against the probability of a claim.

iii. Named peril policies are those where the perils covered are specifically listed and defined.

C. Package policies

i. Package covers give, under a single document, a combination of covers.
ii. For instance there are covers such as Householder's Policy, Shopkeeper's Policy, Office Package Policy etc. that, under one policy, seek to cover various physical assets including buildings, contents etc.
iii. Such policies may also include certain personal lines or liability covers.
iv. Package covers could have common terms and conditions for all sections as also specific terms for specific sections of the policy.

D. Shopkeeper's Insurance

A shop owner is not a corporate house that has large reserves of money to restart business. A single mishap may lead to closure of her/ his shop and could probably ruin her/ his family. There may be bank loans also to repay. There is always the possibility that a member of the public suffers a personal injury or damage to her/ his property, caused by the shop owner's operations and a court holds the shop owner liable to pay the damages. Such situations can also ruin a shopkeeper. Therefore, it's very essential to secure this means of livelihood.

Shopkeeper's Insurance policies are devised to cover many of such aspects of commercial shop/ retail business. There are policies that are customised to cover specific interests of many types of shops such as antique shop, barbershop, beauty parlour, bookstore, department store, dry cleaners, gift shop, pharmacy, stationery shop, toy shop, apparel store etc.

1. What does shopkeeper's insurance cover?

The policy can be tailored to provide cover to protect the specific areas of retail business. It usually covers damage to the shop structure and contents due to fire, earthquake, flooding or malicious damage; and burglary. Shop insurance can also include business interruption protection. This will cover any loss of income or additional expenditure in the event of operation of unexpected peril causing interruption of business operation. The coverage can be selected by the insured depending on her/ his range of activities.

The additional covers the insured can opt may vary from insurer to insurer and can be verified from the respective websites of the non-life insurance companies. These could be:

- i. **Burglary and Housebreaking:** Cover for housebreaking, theft, and larceny of office content
- ii. **Machinery Breakdown:** Cover for breakdown of electrical/ mechanical appliances
- iii. **Electronic Equipment and Appliances:**
  - ✓ Provides all-risk cover for electronic appliances
  - ✓ Cover for loss of electronic installations
- iv. **Money Insurance**: Provides coverage against loss of money due to an accident while it is in:
  - ✓ Transit from the business premises to bank and vice versa
  - ✓ A safe at the business premises
  - ✓ A till (box/ drawer/ counter) at the business premises
- v. **Baggage**: Compensates for loss of baggage while on travel for official purposes
- vi. **Fixed Plate Glass and Sanitary Fittings covers accidental loss of damage to:**
  - ✓ Fixed plate glass
  - ✓ Sanitary fittings
  - ✓ Neon Sign/ Glow Sign/ Hoarding
- vii. **Personal Accident**
- viii. **Infidelity/ Dishonesty of employees**: Covers loss or damage caused by dishonest acts of employees
- ix. **Legal Liability:**
  - ✓ Compensation for accidents arising out of and in the course of employment
  - ✓ Provides cover for legal liability to third parties

Fire/ Burglary/ Baggage/ Plate Glass/ Fidelity Guarantee/ Workmen Compensation and Public Liability Polices (dealt with next chapter) can be taken separately also.
Terrorism cover may also be extended. The exclusions are generally the same as in householder's insurance.

E. Householder's Insurance

The coverages under a Householder's Insurance Policy can be quite wide. It is usually a package of all the needs of a Householder.

Losses normally covered include fire, lightning, explosion and aircraft fall/ impact damage (commonly known as FLEXA); storm, tempest, flood and inundation (commonly known as STFI); and burglary. Coverage differs from company to company and from policy to policy.

Apart from the structure, it covers the contents of the house against burglary, housebreaking, larceny and theft. Jewellery whilst being worn or kept in locked safe can also be insured under Householder's Insurance. Cover is also given for electrical and mechanical failure of domestic and electronic appliances.

Similarly, Householder's insurance Package also provides coverage for loss of personal baggage, lost during travel, or liabilities to neighbours/ visitors may also be part of Householders' insurance package. Some insurers also provide coverage for pedal cycle, personal accident and workmen's compensation.

IRDAI has introduced a standard product with effect from 1st April, 2021 – Bharat Griha Raksha policy with a tenure of upto 10 years, which shall be mandatorily offered by all general insurers carrying on Fire and allied perils insurance business.

Bharat Griha Raksha (meant for Home Building and Home Contents) policy offers cover against a wide range of perils, namely Fire, Natural Catastrophe, Forest, Jungle and Bush fires, Impact Damage of any kind, Riot, Strike, Malicious Damages, Acts of terrorism, Bursting and overflowing of water tanks, apparatus and pipes, Leakage from automatic sprinkler installations and Theft within 7 days from the occurrence of any of the aforesaid events. This policy can be for a period of 1 to 10 years.

In addition to the Home Building, the policy covers General Home Contents automatically (without any need for declaration of details) for 20% of the Sum Insured of the Building subject to a maximum of Rs.10 lakhs. One can also opt for a higher Sum Insured for general contents by declaring the details.

The policy offers two optional covers, namely (i) Insurance for Valuable Contents like jewellery and curios; and (ii) Personal Accident of the insured and spouse due to an insured peril under the policy.

The policy gives complete waiver of underinsurance. That is, if the Sum Insured declared by a policyholder is less than what ought to have been declared for the property in question, the policyholder's claim will not be settled proportionately but upto the Sum Insured that is declared.

F. Sum Insured and Premium

Industrial units or offices will maintain books of accounts showing therein value of assets, therefore, it may not be difficult to arrive at the sum insured. In the case of shop and house this may not be always possible.

As already stated under householder's insurance, generally, there are two methods of fixing the sum insured, viz. market value and reinstatement/ replacement value.

For additional coverage like money, baggage, personal accident the premium would depend on the sum insured and the covers opted for.

How does one fix the Sum Insured?

i. Generally, for fire insurance, there are two methods of fixing the Sum Insured. One is Market Value (MV) and the other is Reinstatement Value (RIV). In the case of M.V., in the event of a loss, depreciation is levied on the asset depending on its age. Under this method, the insured is not paid amount sufficient to replace the property.

ii. In the RIV method, the insurance company will pay the cost of replacement subject to ceiling of sum insured. Under this method, no depreciation is levied. One condition is that the damaged asset should be repaired/ replaced in order to get the claim. It may be noted that RIV method is allowed only for fixed assets and not for other assets like stocks and stocks in process.

Most policies insure the structure of the home for its reconstruction, which is called 'reinstatement value' (and not on 'market value'). Reinstatement value is the cost incurred to reconstruct the home if it is damaged. On the other hand, market value depends on factors like age of the property, depreciation, etc.

Sum insured is generally calculated by multiplying the built up area of insured's home with the construction rate per square foot. The contents of the home - furniture, durables, clothes, utensils, etc. - are valued on market value basis i.e. the current market value of similar items after depreciation.

Premium would depend on the value insured and the coverage taken.

Test Yourself 1

Which of the below statements is correct with regards to a package policy?

I. Package Policy provide a combination of covers under a single document
II. Package Policy can cover only physical assets like buildings
III. A named peril policy or package policy comes at the same price.
IV. Only named peril policies can be bought and package policies are not available.

Definition

Some important definitions

a) **Burglary** means the unforeseen and unauthorised entry to or exit from the insured premises by aggressive and detectable means with the intent to steal contents there from.

b) **Housebreaking** is said to have taken place when a house trespass has been committed by entering it for the purpose of committing an offence.

c) **Robbery** means the theft of contents at the insured's premises using aggressive and violent means against the Insured and/ or insured's employees.

d) **Safe** means a strong cabinet within the insured's premises designed for the safe and secure storage of valuable items, and access to which is restricted.

e) **Theft** is a generic term for all crimes in which a person intentionally and fraudulently takes the property of another without permission or consent and with the intent to convert it to the taker's use or potential sale. Theft is synonymous with 'larceny'.

Test Yourself 2

Under the shopkeeper package policy, the insured may opt for an additional 'Fixed plate glass and sanitary fittings' cover. This will cover accidental loss of damage to which of the following?

I. Fixed plate glass
II. Sanitary fittings
III. Neon signs
IV. All of the above

G. Motor Insurance

Think of this situation: Revathi has bought a new car using all her savings and taken it for a drive. Out of nowhere, a dog comes in the way and to avoid hitting it, Revathi swerves sharply, breaks and goes over the divider, hits another car and injures a person walking on the road. The outcome of a single incident has resulted in damage to Revathi's own car, public property, another car and also caused injury to another person.

In this scenario, if Revathi does not have a car insurance, she may end up paying far more than what it cost her to purchase the car.

- ✓ Will Revathi or similar people have that much money to pay?
- ✓ Should the other party's insurance pay for Revathi's actions?
- ✓ What if they don't have insurance?

That is why the laws of the land make it mandatory to have third-party liability insurance. While motor insurance does not prevent these things from happening, it provides a financial security blanket for the owner.

Apart from an accident, the car can also be stolen, damaged by an accident or destroyed by fire and the owner would suffer financially.

Motor insurance must be taken by a vehicle owner (i.e. the person in whose name the vehicle is registered with the Regional Transport Authority in India.)

Important

Mandatory Third Party Insurance

As per the Motor Vehicles Act, 1988, it is mandatory for every owner of a vehicle plying on public roads, to take an insurance policy, to cover the amount, which the owner becomes legally liable to pay as damages to third parties as a result of accidental death, bodily injury or damage to property. A Certificate of Insurance must be carried in the vehicle as a proof of such insurance.

1. Motor insurance coverage

The country has a large vehicle population. A number of new vehicles keep coming on to the road every day. Many of them are very costly as well. People say that in India, vehicles do not get junked, but only keep changing hands. This means that old vehicles continue to be on the road and new vehicles get added. The area of the roads (the space for driving) is not growing correspondingly with the number of vehicles. The number of people walking on the road is also increasing. Police and hospital statistics say that the number of road accidents in the country is increasing. The amount of compensations awarded to accident victims by Courts of Law are increasing. Even vehicle repair costs are going up. **All these show the importance of motor insurance in the country.**

Motor insurance covers the loss of vehicles and the damages to them due to accidents and some other reasons. Motor insurance also covers the legal liability of vehicle owners to compensate the victims of the accidents caused by their vehicles.

Despite, the government mandate, all the vehicles in the country are not insured.

Motor Insurance covers all types of vehicles plying on public roads such as:

- ✓ Two wheelers
- ✓ Private cars
- ✓ All types of commercial vehicles: Goods carrying and passenger carrying
- ✓ Miscellaneous type of vehicles e.g. cranes,
- ✓ Motor Trade (Vehicles in Showrooms and Garages)

‘Third-Party Insurance’

An insurance policy purchased for protection against the legal actions of another party. Third-party insurance is purchased by the insured (first party) from an insurance company (second party) for protection against another party's claims (third party) for liability arising out of the action of the insured

Third party insurance is called ‘Liability Insurance’ as well.

Two important types of covers that are popular in the market are discussed below:

Act [Liability] Only Policy: As per Motor Vehicles Act it is mandatory for any vehicle plying in public place to insure liabilities towards third parties.

The policy only covers the vehicle owner's legal liability to pay compensation for:

- ✓ Third party bodily injury or death
- ✓ Third party property damage

Liability is covered for an unlimited amount in respect of death or injury and damage.
The claims for compensation to third party victims in case of death or injury caused by a motor accident are to be filed by the complainant in Motor Accident Claim Tribunal (MACT).

‘Compulsory Personal Accident (CPA) Insurance’

IRDAI permitted the issuance of a stand-alone Compulsory Personal Accident cover for Owner-Driver effective 1st January, 2019. The Cover is provided to the Owner-Driver whilst driving the vehicle including mounting into/ dismounting from or traveling in the insured vehicle as a co-driver. However, the policyholder can choose to opt for the CPA cover as part of the Liability Only policy or the Package policy. In the event the policyholder chooses to take a stand-alone CPA policy, the CPA cover offered as part of Liability only or Package policy shall be deleted.

Package/ Comprehensive Policy: (Own Damage + Third Party Liability)

In addition to the above, the loss or damage to the vehicle insured by specified perils (known as own damage to motor vehicles) is also covered subject to the value declared (called IDV – discussed above) other terms and conditions in the policy. Some of these perils are fire, theft, riot and strike, earthquake, flood, accident etc.

Some insurers may also pay for towing charges from the place of accident to the workshop. A restricted cover is also available covering the risk of fire and/ or theft only, in addition to the compulsory cover granted under Act (Liability) Only Policy.

The policy can also cover loss or damage to accessories fitted in the vehicle, personal accident cover under private car policies for passengers, paid driver; legal liability to employees and non-fare paying passengers in commercial vehicles. Insurers also provide free emergency services or use of alternative car in case of breakdown.

2. Exclusions

Some of the important exclusions under the policies are wear and tear, breakdowns, consequential loss, and loss due to driving with invalid driving license or under the influence of alcohol. Use of vehicle not in accordance with `limitations as to use ' (e.g. private car being used as a taxi) is not covered.

3. Sum Insured and Premium

The sum insured of a vehicle in a Motor Policy is referred to as Insured's Declared Value (IDV).

In case of theft of vehicle or total damage beyond repairs in an accident, the claim amount will be determined on the basis of the IDV.

Rating/ premium calculation depends on factors like the Insured's Declared Value, cubic capacity, geographical zone, age of the vehicle etc.

Test Yourself 3

Motor insurance should be taken in whose name?

I. In the name of the vehicle owner whose name is registered with Regional Transport Authority
II. If the person who will be driving the vehicle is different from the owner, then in the name of the person who will be driving the vehicle, subject to approval from Regional Transport Authority
III. In the name of any family member of the vehicle owner, including the vehicle owner, subject to approval from the Regional Transport Authority
IV. If the vehicle will be driven by anyone other than the owner, then primary policy should be in the name of the vehicle owner and additional policies

should be purchased in the names of all the people who will be driving the vehicle.

Summary

a) A householder’s insurance policy only provides coverage on losses incurred to an insured property from hazards or events named in the policy. The perils covered will be clearly spelt out.
b) Householder’s insurance covers the structure and its contents against fire, riots, bursting of pipes, earthquakes etc. Apart from the structure, it covers the contents against burglary, housebreaking, larceny and theft.
c) Package covers give, under a single document, a combination of covers.
d) For a householder’s insurance policy generally there are two methods of fixing the sum insured: Market Value (MV) and Reinstatement Value (RIV).
e) Shopkeeper’s insurance usually covers damage to the shop structure and contents due to fire, earthquake, flooding or malicious damage; and burglary. Shop insurance can also include business interruption protection.
f) Motor insurance covers the loss of vehicles and the damages to them due to accidents and some other reasons. Motor insurance also covers the legal liability of vehicle owners to compensate the victims of the accidents caused by their vehicles. Compulsory Personal Accident cover for Owner-Driver is provided to whilst driving the vehicle including mounting into/ dismounting from or traveling in the insured vehicle as a co-driver.

Key terms

a) Householder’s insurance
b) Shopkeeper’s insurance
c) Motor insurance

Answers to Test Yourself

Answer 1 - The correct option is I.
Answer 2 - The correct option is IV.
Answer 3 - The correct option is I.

CHAPTER G-04
COMMERCIAL INSURANCE

Chapter Introduction

In the previous chapter we considered various kinds of insurance products that cover the risks faced by individuals and households. There is another set of customers who have other needs for protection. These are the commercial or business enterprises or firms, who are engaged in or deal with of various kinds of goods and services. In this chapter we shall consider the insurance products available to cover the risks faced by this segment.

Learning Outcomes

Understand the basics of the following lines of insurance:

A. Property/ Fire Insurance

B. Business Interruption Insurance

C. Burglary Insurance

D. Money Insurance

E. Fidelity Guarantee Insurance

F. Bankers Indemnity Insurance

G. Jewelers' Block Policy

H. Engineering Insurance

I. Industrial All Risks Insurance

J. Marine Insurance

K. Liability Insurance policies

After studying this chapter, you should be able to understand the importance and basic purposes of the 11 types of insurances discussed.

A. Property/ Fire Insurance

Commercial enterprises are broadly divided into two types:

- ✓ Small and Medium Enterprises [SMEs]
  - Bharat Sookshma Policy
  - Bharat Laghu Policy
- ✓ Large Business Enterprises

  -Standard fire and Special Perils Policy (SFSP), IAR etc.

Historically, general insurance sector has largely developed by catering to the needs of these customers.

Selling general insurance products to commercial enterprises calls for a careful matching of insurance products with their needs. Agents must have a proper understanding of the products available. Let us briefly consider some of these general insurance products.

1. Standard Fire and Special Perils Policy (SFSP)

Fire insurance policy is suitable for commercial establishments as well as for the owner of property, one who holds property in trust or in commission and for, individuals/ financial institutions who have financial interest in the property.

All immovable and movable property located at a particular premises such as buildings, plant and machinery, furniture, fixtures, fittings and other contents, stocks and stock in process, including stocks at suppliers/ customer's premises,

Stocks held in trust, if specifically declared, machinery temporarily removed from the premises for repairs can be insured. Monetary relief is essential to rebuild and renew the property damaged to bring back the business to its normal course. It is here that fire insurance plays its role.

1.1. What does the Standard Fire policy cover?

Some of the perils traditionally covered by the Fire policy (as per the erstwhile All India Fire Tariff) are discussed below.

The fire policy for commercial risks covers the perils of:

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

- ✓ Bush fire

There are two important features which differentiate commercial insurance from individual and retail lines.

a) The insurance needs of firms or business enterprises are much larger than that of individuals. The reason is that the value of the assets of a commercial enterprise is much larger than that of an individual's assets. Their loss or damage could adversely impact the very survival and future of the company.

b) The demand for insurance of commercial enterprise is often mandated or made necessary by legal or other requirements. For instance, when plants and assets are set up through a bank loan, their insurance may be a condition of the loan. Many corporate enterprises in India are professionally run companies and a number of them are multinationals.

   They are required to maintain global quality standards, including the adoption of appropriate risk management strategies and insurance for protecting their assets.

Any loss arising out of the above perils is covered by the policy subject to some exclusion.

1.2. Revised Standard Fire and Special Perils (SFSP) Policies:

IRDAI has issued guidelines with effect from 1st April, 2021 whereby the Standard Fire and Special Perils (SFSP) Policy will be replaced by the following two standard products **for the risks** given **below** that shall be mandatorily offered by all general insurers carrying on Fire and allied perils insurance business.

i. **Bharat Sookshma Udyam Suraksha (meant for enterprises where the total value at risk is upto Rs. 5 Crore)-** designed for financial protection of MSMEs

This policy provides cover for the Building/ Structures, Plant and Machinery, Stock and other assets of enterprises where the total value at risk across all insurable asset classes at one location is up to Rs. 5 Crore. This policy also offers cover against a wide range of perils, quite similar to the policy meant for Dwellings.

The policy has many in-built covers in addition to the basic coverage — Cover for alterations, additions or extensions, Cover for stocks on a floater basis, Cover for temporary removal of stocks, Cover for Specific Contents, Cover for start-up expenses (following a loss), Cover for payment of professional fees for Architects, Surveyors and Consulting Engineers, Cost for removal of debris and Costs compelled by Municipal Regulations.

The policy can be taken by micro level enterprises such as offices, hotels, industries, storage risks and so on. The policy underinsurance to the extent of

15% is waived. Bharat Sookshma Udyam Policies allow increase in Sum Insurer during the policy tenure by endorsement.

ii. **Bharat Laghu Udyam Suraksha(meant for enterprises where the total value at risk is more than Rs. 5 Crore and upto Rs. 50 crore)** designed for financial protection of MSMEs

This policy provides cover for the Buildings/ Structures, Plant and Machinery, Stock and other assets of enterprises where the total value of risk across all insurable asset classes at one location exceeds Rs.5 Crore but does not exceed Rs. 50 Crore at the policy commencement date. This policy also has all the in-built covers offered by the policy for micro level enterprises mentioned above. The perils against which insurance is offered are also similar to the policy meant for micro level enterprises.

The policy, again, can be taken for all types of risks such as offices, hotels, industries, storage risks and so on. Bharat Laghu Udyam Policies allow increase in Sum Insurer during the policy tenure by endorsement.

iii. Exclusions under Fire Policies

Insurers traditionally exclude the following from the scope of Fire policies.

Losses due to excepted perils like

i. War and war like activities.
ii. Nuclear perils
iii. Ionisation and radiation
iv. Pollution and contamination losses

Perils that are covered by other policies in General Insurance

i. Machinery Breakdown,
ii. Business Interruption

iv. **Add-on Covers**

However some perils can be covered by payment of additional premium like earth quake, fire and shock; deterioration of stock in the cold storages following power failure as a result of insured peril, additional expenditure involved in removal of debris, architect, consulting engineers' fee over and above the amount covered by the policy, forest fire, spontaneous combustion and impact damage due to own vehicles; terrorism.

v. **Variants of Fire policy**

Fire policies are generally issued for a period of 12 months. Only for dwellings, insurance companies offer long term policies, i.e. for a period over 12 months. In some cases short period policies are also issued, to which the short period scales are applicable.

a. **Market Value and Reinstatement Value Policies:** In the event of a loss, the insurer would normally pay the market value [which is the depreciated value]. Under Reinstatement Value Policy, however, the insurers would pay cost of replacement of the damaged property, by new property of the same kind.

   Reinstatement value policies are issued for covering buildings, plant, machinery and furniture, fixture, fittings. Reinstatement value policies are not issued to cover stocks, which are usually covered on market value basis.

b. **Declaration Policy:** To take care of frequent fluctuations in stocks values in warehouse, Declaration Policy is granted subject to certain conditions. The sum insured should be the highest value that is expected to be stored in the godown during the period of policy. On this value a provisional premium is charged. The insured has to declare the value of his stocks at agreed intervals, during the currency of policy. This is adjustable along with the premium at the end of the policy period.

c. **Floater Policies:** Floater policies may be issued for stocks of goods which are stored at various specified locations under one sum insured. Unspecified locations are not covered. The premium rate is the highest rate applicable to insured's stocks at any one location with a loading of 10%. These are also called fire floater policies as the sum insured 'floats' over multiple locations.

vi. Premium rating depends on:

a) The type of occupancy, whether industrial or otherwise.
b) All property located in an industrial complex will be charged one rate depending on the product(s) made.
c) Facilities outside industrial complexes will be rated depending on the nature of occupancy at individual location.
d) Storage areas will be rated based on the hazardous nature of goods held.
e) Additional premium is charged to include "Add on" covers.
f) Discount in premium is given based on past claims history & fire protection facilities provided at the premises.
g) One can also opt out of riot, strike, malicious damage covers and flood group perils for reduction in premium.

The rating pattern may again vary from insurer to insurer.

Test Yourself 1

A fire policy for commercial risks covers the peril of ________

I. Vehicle burning on highway
II. Fire on ship
III. Explosion in factory
IV. Hospitalization due to fire

B. Business Interruption Insurance

Business Interruption insurance is also known as Consequential Loss Insurance or Loss of Profit Insurance.

Fire insurance provides indemnity against material or property damage or loss suffered to building, plant, machinery fixtures, fittings, merchandise goods, etc. by insured perils. **This may result in total or partial interruption of the insured's business**, resulting in various economic losses, during the period of interruption.

Coverage under Business Interruption Policy

Consequential Loss (CL) Policy [Business Interruption (BI)] provides indemnity for loss of what is termed as gross profit – which includes Net Profit plus Standing Charges along with the increased cost of working incurred by the insured to get the business back to normalcy, as soon as possible to reduce the final loss. The perils covered and conditions are the same as those covered under the fire policy.

Example

If a Fire results in damage to the car manufacturer's plant, the production loss will result in loss of income to the manufacturer. This loss of income along with extra expenses incurred can be insured provided it has resulted from a peril insured.

This policy can be taken only in conjunction with standard fire and special perils policy as claims under this policy are admissible only if there is a claim under standard fire and special perils policy.

Test Yourself 2

A business interruption insurance policy can be taken only in conjunction with ___________.

I. Standard fire and special perils insurance policy
II. Standard marine insurance policy
III. Standard motor insurance policy
IV. Standard health insurance policy

C. Burglary Insurance

The policy is meant for business premises like factories, shops, offices, warehouses and godowns which may contain stocks, goods, furniture fixtures and cash in a locked safe which can be stolen. The scope of cover is clearly expressed in the policy.

Risks covered under burglary insurance

a) Loss of property following actual forcible and violent entry into the premises or loss followed by actual, forcible and violent exit from the premises or hold up.

b) Damage to insured property or premises by burglars. Property insured is covered only when it is lost from the insured premises and not from any other premises.

Cash cover: An important part of burglary cover is cash cover. It operates only when the cash is secured in a safe, which is burglar proof and is of an approved make and design. The common conditions applicable for granting cash cover are given below:

a) Cash lost from the safe following the use of the original key to open, it is covered only where such key has been obtained by violence or threats of violence or through means of force. This is generally known as "key clause".

b) A complete list of the amounts of cash in safe is kept secure in some place other than the safe. The liability of the insurer is limited to the amount actually shown by such records.

1. **First Loss Insurance**

   In the cases, which are of low value in high bulk, (such as cotton in bales, grain, sugar etc.) the risk of losing the entire stock on a single occasion is considered remote. The value that can be burgled is ascertained as probable maximum loss (PML) and the full premium is charged for this maximum probable loss and certain percentage of full premium is charged on rest amount of stock as PML floats over the entire stock. It is assumed that a second burglary may not follow immediately or the insured may take additional security measures from its recurrence.

2. **Declaration cover and floater cover is also possible in respect of stocks, similar to fire insurance.**

3. **Exclusions**

   The policy does not cover theft by employees, family members or other persons who are lawfully on the premises, nor does it cover larceny or ordinary theft. It also excludes losses that are covered by a fire or plate glass policy.

4. **Extensions**

   The policy can be extended to cover riot, strikes and terrorism risks at extra premium.

5. **Premium**

   Rates of premium for burglary policy depend upon the nature of insured property, the moral hazard of the insured himself, construction and location of premises, safety measures (*e.g. watchmen, burglar alarm)*, previous claims experience etc.

   In addition to details given in the proposal form, a pre-acceptance inspection is done by insurers where high values are involved.

Test Yourself 3

The premium for burglary policy depends on _______________.

I. Nature of insured property

II. Moral hazard of the insured himself
III. Construction and location of the premises
IV. All of the above

D. Money Insurance

Handling of cash is an integral part of any business. The Money Insurance policy is intended to protect banks and industrial business establishments against loss of money. Money is at risk in the premises as well as outside. It can be unlawfully taken away while withdrawing, depositing, making payments or collections.

1. Coverage of Money Insurance

Money insurance policy is designed to cover the losses that may occur while cash, cheques/ postal orders/ postal stamps are being handled. The policy normally provides cover under two sections

a) **Transit section:** It covers loss of money as a result of robbery or theft or other fortuitous cause whilst it is carried outside by the insured or her authorised employees.

The transit section specifies two amounts:

i. **Limit per carrying**: This is the maximum amount that insurers may be required to pay in respect of each loss.

ii. **Estimated amount in transit during the policy period:** It represents the amount to which the rate of premium is to be applied to arrive at the amount of premium.

Policies can be issued on "**declaration basis**", similar to the practice in fire insurance. Insurers thus charge a provisional premium on the estimated amount in transit and adjust this premium at the time of expiry of the policy, based on actual amount in transit during the policy period, as declared by the insured.

b) **Premises section:** This section covers loss of cash from one's premises/ locked safe due to burglary, housebreaking, hold up etc. Other features of the policy are normally the same as of burglary insurance (of business premises) that this was discussed under Learning Outcome C above.

2. Important exclusions

These include:

a) Shortage due to error or omission,

b) Loss of money that has been entrusted to other than authorized person and

c) Riot, strike and terrorism

3. Extensions

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

a) Dishonesty of persons carrying cash,

b) Riot, strike and terrorism risks

c) Disbursement risk, which is the loss suffered during payment of wages to employees

4. Premium

Premium rate is fixed depending on the insured, cash carrying liability of the company at any one time, the mode of conveyance, distance involved, safety measures taken etc. Premium is adjustable according to actual cash carried throughout the year based on declaration made within 30 days of expiry of the policy.

Test Yourself 4

Which of the below is covered under a money insurance policy?

I. Shortage due to error or omission
II. Loss of cash from one's premises due to burglary
III. Loss of money that has been entrusted to other than authorized person
IV. Riot, strike and terrorism

E. Fidelity Guarantee Insurance

Companies suffer financial loss due to what are termed as white collar crimes like fraud or dishonesty of their employees. Fidelity guarantee insurance indemnifies employers against the financial loss suffered by them due to fraud or dishonesty of their employees by forgery, embezzlement, larceny, misappropriation and default.

1. Coverage under Fidelity Guarantee Insurance

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

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

2. Types of Fidelity Guarantee Policy

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

a) **Individual policy:** This type of policy is used where only one individual is to be guaranteed. Name, designation of the employee and amount of guarantee has to be specified.
b) **Collective policy:** This policy comprises a schedule listing out the names of those employees to whom the guarantee applies, along with a note on the duties of each employee and separate individual sums insured.
c) **Floating policy or floater:** In this policy, the names and duties of the individuals to be covered are inserted in a schedule, but instead of individual amounts of guarantee, a specified amount of guarantee is

"floated" over the whole group. A claim in respect of any one employee will, therefore, reduce the floated guarantee, unless the original sum is reinstated by payment of an extra premium.

d) **Positions policy:** This is similar to a collective policy with the difference that only the schedule lists out "positions' (say, Cashier, Account Officer Etc.) that are to be guaranteed for a specified amount and the name are not mentioned.

e) **Blanket policy:** This policy covers the entire staff without showing names or positions. No enquiries about the employees are made by the insurers. Such policies are only suitable for an employer with a large staff and the organization makes adequate enquiries into the antecedents of employees. The references that the employer obtains must be available to the insurers in the event of a claim. The policy is granted only to large firms of repute.

3. Premium

The rate of premium depends upon the type of business occupation, status of the employee, the system of check and supervision.

Test Yourself 5

Fidelity Guarantee Insurance indemnifies ________________.

I. Employers against the financial loss suffered by them due to fraud or dishonesty of their employees
II. Employees against the financial loss suffered by them due to fraud or dishonesty of their employer
III. Third parties against the financial loss suffered by them due to fraud or dishonesty of the corporate
IV. Shareholders against the financial loss suffered by them due to fraud or dishonesty of the company management

F. Bankers Indemnity Insurance

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

1. Coverage under Bankers Indemnity Insurance

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

a) Money securities lost or damaged whilst within the premises due to fire, burglary, riot and strike.

b) Loss suffered due to any cause whatsoever including negligence of the employees, when the property is carried outside the premises in the hands of authorized employees.

c) Forgery or alteration of cheques, drafts, fixed deposit receipts etc.

d) Dishonesty of employees with reference to money/ securities or in respect of goods pledged.

e) Dispatches by registered post parcels.

f) Dishonesty of appraisers.

g) Money lost while in the hands of agents of the bank like 'Janata Agents', 'Chhoti Bachat Yojana Agents'.

The cover is issued on discovery basis, this means the policy will respond to a period during which a loss is discovered and not necessarily the period when it occurred. But a cover should have been in existence when the loss actually occurred.

Conventionally losses within a period of 2 years prior to date of discovery only are payable, subject to the cover having been continuous, from a date earlier than that when the loss has occurred.

2. Important exclusions

Major exclusions are Trading losses, Negligence, Software crimes and dishonesty of the partners/ directors

3. Scope

The policy comprises of 7 sections viz.:

1. On Premises
2. In Transit
3. Forgery or Alteration
4. Dishonesty
5. Hypothecated Goods
6. Registered Postal Service
7. Appraisers
8. Janata Agents

4. Sum insured

The bank has to fix the **sum insured** which would usually float over the first 5 sections. This is termed as 'basic sum insured'. Additional sum insured can be purchased for section (1) and (2) if the basic sum insured is not sufficient. The policy also allows one compulsory and automatic reinstatement of sum insured by payment of an extra premium

5. Rating

The premium calculation is based on:

a) Basic sum insured
b) Additional sum insured

c) Number of staff
d) Number of branches.

Test Yourself 6

Which of the below can be covered under a bankers indemnity insurance policy?

I. Money securities lost or damaged whilst within the premises due to fire
II. Forgery or alteration of cheques
III. Dishonesty of employees with reference to money
IV. All of the above

G. Jewelers’ Block Policy

In recent years India has emerged as a leading centre in world trade for jewellery, especially diamonds. Imported raw diamonds are cut, polished and exported. It takes care of all risks of a jeweller whose business involves sale of articles of high value in small bulk like jewellery gold &silver articles, diamonds and precious stones, wrist watches etc. The trade involves stocking these expensive items in large quantity and moving them between different premises.

1. Coverage of Jeweller’s Block Policy

Jewellers block policy is a package policy, traditionally divided into 4 sections. Coverage under Section 1 is usually made compulsory while the insured are allowed to avail of other sections at their option. It is also the market practice to include some more sections to cover other assets like Electronic equipment, Plate glass, Signage etc. and liabilities like Employees Compensation, Infidelity of employees.

Fidelity guarantee cover should also be taken by the insured for full protection if there is no separate section for this cover.

Risks are rated on merits of each case. Different premium rates are applied for each section with discounts for exclusive round the clock watchman, close circuit TV/ alarm system, exclusive strong room and for any other safety expedient etc.

Test Yourself 7

In case of a Jeweller’s Block Policy, there are traditionally multiple sections, of which one is usually compulsory while the remaining sections are ____________.

I. Mandatory
II. Retrospective
III. Optional
IV. Compensatory

H. Engineering Insurance

Engineering insurance is a branch of general insurance that developed parallel with the growth of fire insurance. Its origins can be traced to the development of industrialization, which highlighted the need for a separate cover for plant and machinery. Concept of **All Risks** cover was also developed with regard to engineering projects - covering damage due to any cause except those specifically excluded. The products covered various stages – from construction to testing till the plant became operational. The customers for this insurance are both large and small industrial units. This also includes units having electronic equipment and contractors doing big projects. There are two types of engineering insurance policies:

1) Annual Policies-Generally of one year duration-
    a. Machinery Breakdown Policy
    b. Boiler Pressure Plant policy
    c. Electronic Equipment Policy
    d. Contractor's Plant & Machinery Policy
    e. Deterioration of Stock Policy
    f. Civil Engineering Completed Risk
2) Project Policies with variable duration based on project period-
    a) Contractors All Risk Policy
    b) Erection All Risk Policy

There are two "Consequential Loss" policies associated with Engineering Policies:

a) Machinery Breakdown Loss of Profit Policy (MBLOP) taken with Machinery Breakdown Policy or with Boiler and Pressure Plant policy and

b) Advance loss of Profit (ALOP) or Delay in Startup (DSU) Policy taken with project policy.

Let us briefly consider the policies:

A. <u>Annual Policies</u>

1. **Machinery Breakdown Policy (MB):** This policy is suitable for every industry which operates on machines and for whom breakdown of plant and machinery is of serious consequence. This policy covers machines like generators, transformer and other electrical, mechanical and lifting equipment.

The policy covers unforeseen and sudden physical damage by mechanical or electrical breakdown by any cause (subject to excepted risks) to the insured property:

a) While it is at work or at rest.
b) While being dismantled for cleaning or overhauling
c) During cleaning or overhauling operations and during reassembly thereafter.
d) When being shifted within the premise.

Premium is charged on the reinstatement/ replacement value of individual machinery. The machine as a whole should be insured. Rates depend on the type of machine; the industry in which it is used and its value. Discounts are offered based on factors such as stand-by facilities, spares available and claims experience.

2. **Boiler and Pressure Plant Policy:** This covers boilers and pressure vessels, against:

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

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

3. **Electronic Equipment Policy:** This covers various kinds of electronic equipment, which includes the entire computer system consisting of CPU, keyboards, monitors, printers, UPS, system software etc. Auxiliary equipment such as air-conditioning, heating and power conversion, etc. are also covered.

This policy is a combination of fire policy, machinery insurance policy and burglary policy. The policy covers the contingencies such as defective design (not covered under a warranty), effects of natural phenomena; defective functioning due to voltage fluctuations, impact shock etc., burglary, housebreaking & theft are also covered.

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

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

4. **Contractors Plant & Machinery (CPM) Policy:** Suitable for contractors involved in construction business for covering all kinds of machinery like cranes, excavators from unforeseen and sudden physical loss or damage from any cause including:

   a) Burglary, Theft, Riot, Storm, Malicious Damage, Tempest

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

The Premium to be charged depends on the type of equipment and the location at which it operates.

The cover is operative whilst the equipment is at work or at rest or being dismantled for cleaning or overhauling or re-assembling thereafter. The cover also applies while the same are lying at contractors own premises. However floater policy covering the equipment "Anywhere in India basis" is also available by charging 10% extra premium and with certain conditions.

5. **Deterioration of Stock Policy:** This policy is suitable for the owner of the cold storage (individual or a cooperative society) or those who take the cold storage on lease or hire for storage of perishable commodities. The cover is against the risk of deterioration and contamination following breakdown of the refrigeration plant and machinery and also due to rise in temperature and sudden and unforeseen escape of refrigerants into the cold storage rooms.

6. **Civil Engineering Completed Risk:** It is generally taken by contractors who has to maintain the civil projects after completion. The civil projects like – Bridges, Dry docks, Harbours, Jetties Railway lines, Rock Filled dams, Concrete dams, Earthen dams, Canals , Irrigation system are considered under this policy. Risks covered are –
   1. Fire
   2. Lightning
   3. Explosion/ Implosion
   4. Riot, Strike, Malicious Damage
   5. Impact by any Rail/ Road or water borne vehicle or animal
   6. Storm Cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood and Inundation, Wave action of water
   7. Subsidence and Landslide (Including Rockslide) damage
   8. Earthquake Fire and Shock (Including flood due to earthquake), Tsunami
   9. Frost, avalanche, ice.

B. Project Policies

These policies are typically issued for the period of the project and may not be on an annual basis.

1. **Contractors All Risks (C.A.R.) Policy:** This is designed to protect the interests of contractors and principals engaged in civil engineering projects from small buildings to massive dams, buildings, bridges, tunnels, etc. The policy provides an "All Risk" cover – thus providing indemnity against any sudden and

unforeseen loss or damage that occurs to property insured at the construction site. This can be extended to cover third party liability and other exposures. Premium chargeable depends on the nature of the project, the project cost, the project period, geographic location and the period of testing.

2. **Erection All Risks (EAR) Policy:** This policy is also known as Storage-cum-Erection (SCE) policy. It is suitable for the principal or contractors of a project whereas plant and machinery is being erected as it is exposed to various external risks. This is a comprehensive insurance policy that covers any sort of contingency right from the moment the materials are unloaded at the project site and continues during the entire project period until the project is tested, commissioned and handed over.

   Premium chargeable depends on the nature of the project, the cost, the project period, geographic location, and the period of testing.

   If required a marine cover can be issued along with the erection policy for providing coverage to the equipment and materials during the transit phase till delivered at the project site.

C. Consequential Loss Policies

These type of policies are issued to cover losses consequential to other losses. These are also called 'Business Interruption' policies or 'Loss of Profits' policies.

3. Machinery Loss of Profits (MLOP) Policy

This policy is suitable for industries where interruptions or delays as a result of machinery breakdown or boiler explosion result in huge consequential losses.

Where the time lag between the breakdown or loss and the restoration is large, this policy compensates for the loss of profits during the intervening period due to reduction in turnover and increase in cost of working. The terms and conditions and coverage of business interruption policy is the same as the business interruption policy following a fire policy loss, which has been discussed earlier in this chapter.

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

This covers financial consequences of a project being delayed because of accidental damages during the project. It is suitable for the insured who is deprived of the anticipated earning and for the financial institutions to the extent of their interest in the project. It is issued as an extension to the MCE/ EAR/ CAR Policy before the actual commencement of project.

The policy also covers financial losses in the form of continuing expenses such as interest on term loan, debentures, wages and salaries etc. and on the anticipated net profit which the business could have earned if it had commenced on the scheduled date.

Premium rating depends on various critical factors and on re-insurance support available. The anticipated gross profit or turnover and the indemnity period are also critical factors in deciding the premium payable.

Test Yourself 8

Delay in start-up policy is also known as ______________.

I. Machinery Loss of Profits cover
II. Advance Loss of Profits cover
III. Contractors All Risk cover
IV. Contractors Plant & Machinery cover

I. Industrial All Risks Insurance

The Industrial All Risks Policy was designed to cover, industrial properties – both manufacturing and storage facilities, anywhere in India under one policy. It provides indemnification against material damage and business interruption.
Usually, the policy provides cover for the following:

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

(Note: Business interruption following perils under (iii) above is usually not included in the package cover but available as optional cover)

- ✓ The policy offers widest range of cover compared to that provided by individual operational policies.
- ✓ Premium rates for the policy depend on the cover opted, claims experience, and deductibles opted, risk assessment report for MLOP etc.

Test Yourself 9

Which of the following is not covered under Industrial All Risks insurance?

I. Fire and special perils as per fire insurance practice
II. Larceny
III. Machinery breakdown
IV. Electronic equipment

J. Marine Insurance

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

1. Marine Cargo Insurance

Though the term 'marine' may indicate only losses due to sea (marine) misadventures, **marine cargo insurance** covers much more. It provides indemnity in respect of loss of or damage to goods during transit by rail, road, sea, air or registered post, within the country as well as abroad. Type of goods may range from diamonds to household goods, bulk items like cement, grains, over dimensional cargoes for projects 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.

Who effects the insurance: The seller or the buyer of the goods [consignment] may insure the cargo depending upon the contract of sale.

Marine insurance contract needs to have provisions that apply internationally. This is because it covers goods that are in transit beyond any country's borders. The covers are accordingly governed by international conventions and certain clauses attached to the policy.

While the basic policy document contains general conditions, the scope of cover and exceptions and special exclusions are attached by separate clauses known as Institute cargo Clauses (ICC). These are drafted by the Institute of London Underwriters.

a) Coverage under Marine Cargo Insurance

Cargo policies are essentially voyage policies, i.e. they cover the subject matter whilst in transit from one place to another. However, the insured is required to always act with reasonable care in all circumstances within his control. The main feature of this policy is that it's an Agreed Value Policy. The valuation is agreed between the insurer and insured and is not subject to revaluation later unless fraud is suspected. The convention for the Sum Insured is CIF + 10% (Cost Insurance & Freight + 10%). Another unique feature is that the policy is freely assignable.

The cover normally commences from the time the goods leave the warehouse at the place named in the policy and terminates at the destination named in the policy, depending on the terms of the contract of sale.

The terms and conditions applicable are governed by either;

i. Inland Transit Clause (ITC) A, B or C for inland transit

ii. Institute Cargo Clause (ICC) A, B, or C for voyage by sea
iii. Institute Cargo (Air) Clause – A for transport by air

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

i. Fire or explosion
ii. Derailment or overturning of the vehicle
iii. Stranding, grounding or sinking of the vessel (in case of ship)
iv. Collision with an external object
v. Discharge of cargo at a port of distress
vi. General average sacrifice
vii. Jettison.

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

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

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

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

These exclusions are common to all clauses of inland, air and sea. There are separate clauses also for trading of specific commodities like coal, bulk oil and tea etc. Marine cover can be extended by paying additional premium to cover War, Strikes, Riots, Civil Commotion and Terrorism. Marine and Aviation policies are the only branches of insurance that offer cover against War perils.

Important

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

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

b) Different types of marine policies

i. Specific Policy

This policy covers a single shipment. It is valid for the particular voyage or transit. Merchants who are engaged in regular import and export trade or who are sending consignments regularly by inland transit would find it convenient to arrange insurances under special arrangements like the open policy.

ii. Open Policy

The carriage of goods within the country can be covered under an open policy. The policy is valid for one year and all consignments during this period have to be declared by the insured to the insurer as agreed between them on a fortnightly, monthly or quarterly basis.

iii. Open Cover

The open cover is a contract for a year giving the Insured continuous protection to cover a large number of shipments/ despatches. The premium on the consignments would be adjusted from the respective cash deposit account maintained by the Insured. Open covers are issued to large exporters and importers who have continuous trade

Open covers set out the terms of cover and rates of premium for transactions of marine dispatches for one-year. The open cover is not a policy and it is not stamped. A certificate of insurance is issued for each declaration duly stamped for appropriate value.

iv. Duty and increased value insurance

These policies provide extra insurance if the value of the cargo is increased due to payment of customs duty or increase in the market value of the goods at the destination on the date of the landing.

2. Marine Hull insurance

The term 'Hull' refers to the body of a ship or other water transport vessel.

Marine hull insurance is done as per international clauses applicable across different countries. Marine hull covers are essentially of two types:

a) **Covering a particular Voyage: The set of clauses used here are called Institute Voyage Clauses**
b) **Covering a period of time: Usually one year. The set of clauses used here are called Institute (Time) Clauses**
c) War risks are governed by special regulations and the premiums collected will be credited to the Central Government.

Information

Hull insurance also includes the following insurances:

i. Inland vessels such as barges, launches, passenger vessels etc.
ii. Dredgers (Mechanized or non-mechanized)
iii. Fishing Vessels (Mechanized or non-mechanized)
iv. Sailing Vessels (Mechanized or non-mechanized)

v. Jetties and Wharves
vi. Vessels in the course of construction

The ship owner has insurable interest not only in the ship, but also in the freight to be earned during the period of insurance. In addition to freight the ship owner has insurable interest in the amount spent by him in fitting out the vessel, including provisions and stores. **These expenses are termed disbursements and are insured concurrently with the hull policy for a period of time.**

Important

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

Test Yourself 10

Which branch of insurance offers cover against war perils?

I. Marine policies
II. Aviation policies
III. Both of the above
IV. None of the above

K. Liability Policies

Accidents cannot be avoided altogether, however careful a person is. This could result in injury to oneself and damage to one's property and also may simultaneously cause injury to third parties and damage to their property. The persons thus affected would claim compensation for such loss.

A liability could also arise from a defect in a product manufactured and sold, say chocolates or medicines, causing harm to the consumer. Similarly, liability could arise from wrong diagnosis/ treatment of a patient or from a case improperly handled by a lawyer for his client.

In all such cases, where a third party, consumer or the patient would demand compensation for the alleged wrong doing, it would raise a need for payment of compensation or meeting expenses involved in defending the suits filed by the claimants. In other words there is a financial loss arising from a liability to pay. The existence of such a liability and the amount of compensation to be paid would be decided by a civil court which would go into the aspect of alleged negligence/ fraud. Liability insurance policies provide coverage of such liabilities. Let us look at some of the liability policies.

Statutory liability

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

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

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

1. **Compulsory Public Liability Policy**

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

Compensation payable

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

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

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

This type of policy covers liability arising out of fault/ negligence of the insured causing third party personal injury or property destruction [TPPI OR TPPD].

There are separate policies covering industrial risks as well as non-industrial risks like those affecting hotels, cinema halls, auditoriums, residential premises, offices, stadiums, godowns and shops. It covers the legal liability to pay compensation including claimant's costs, fees and expense according to Indian Law, in respect of TPPI/ TPPD.

The policy does not cover:

a) Products liability
b) Pollution liability
c) Transportation and
d) Injuries to workmen/ employees

3. **Products Liability Policy**

The demand for products liability insurance has arisen because of the wide variety of products (e.g. canned food stuff, aerated waters, medicines and injections, electrical appliances, mechanical equipment, chemicals etc.) that are today manufactured and sold to the public. If a defect in the product causes death, bodily injury or illness or even damage to the property of third parties, it could cause a claim to arise. Product liability policies cover this liability of the insured.

Cover is available for exports as well as domestic sales.

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

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

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

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

5. **Professional Liability**

Professional indemnities are designed to provide insurance protection to professional people against their legal liability to pay damages arising out of negligence in the performance of their professional duties. Such covers are available for doctors hospitals; engineers, architects; chartered accountants, financial consultants, lawyers, insurance brokers.

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

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

7. **Employee's Compensation Insurance**

This policy provides indemnity to the insured in respect of his legal liability to pay compensation to his employees who sustain personal injury by accident or disease arising out of and in the course of his employment. This is also called **Workman's Compensation Insurance.**

Two forms of insurance are prevalent in the market:

a) **Table A:** Indemnity against legal liability for accidents to employees under the Employees Compensation Act, 1923, (Workman's Compensation Act, 1923), Fatal Accident Act, 1855 & Common Law.

b) **Table B**: Indemnity against legal liability under Fatal Accidents Act, 1855 and Common law.

The premium rate is applied on the estimated wages of employees as declared in the proposal form.

The policy may be extended to cover:

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

Test Yourself 11

Under the Public Liability Insurance Act, 1991, how much is the compensation payable for actual medical expenses for non-fatal accidents?

I. Rs. 6,250
II. Rs, 12,500
III. Rs. 25,000
IV. Rs. 50,000

Answers to Test Yourself

Answer 1 - The correct option is III.
Answer 2 - The correct option is I.
Answer 3 - The correct option is IV.
Answer 4 - The correct option is II.
Answer 5 - The correct option is I.
Answer 6 - The correct option is IV.
Answer 7 - The correct option is III.
Answer 8 - The correct option is II.
Answer 9 - The correct option is II.
Answer 10 - The correct option is III.
Answer 11 - The correct option is II.

CHAPTER G-05
GENERAL INSURANCE CLAIMS

Chapter Introduction

At the core of any insurance contract is the promise made at the beginning i.e. to indemnify the insured in the event of a loss. This chapter talks about the procedures and documents involved, from the time loss takes place, making it easier to comprehend the entire process of claims settlement. It also explains the method of dealing with disputed claims either by insured or insurer.

Learning Outcomes

A. Claims Settlement Process

B. Role of Surveyors and Loss Assessors

After studying this chapter, you should be able to:

1. Argue the importance of claim settlement functions
2. Describe the procedures for intimation of loss
3. Appraise claim investigation and assessment
4. Explain the importance of surveyors and loss assessors
5. Illustrate the contents of claim forms
6. Define claims adjustment and settlement

A. Claims settlement process

1. Importance of settling claims

The most important function of an insurance company is to settle claims of policyholders on the happening of a loss event. Insurer fulfils this promise by providing prompt, fair and equitable service in either paying the policyholder or paying claims made against the insured by a third party.

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

Settling claims professionally is regarded the biggest advertisement for an insurance company.

a) **Promptness**

Prompt settlement of claims, whether the insured is a corporate client or an individual or whether the size of the loss is big or small is very important. It must be understood that the insured needs insurance compensation as soon as the possible after the loss.

If he gets the money promptly, it is of maximum use to him. It is insurance company’s duty to pay the claim amount when insured needs it most – as early as possible after the loss.

b) **Professionalism**

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

i. Did the loss really happen?

ii. If so, did the loss making event really cause the damage?

iii. The extent of damage out of this event.

iv. What was the reason for the loss?

v. Was the loss covered under the policy?

vi. Is the claim payable as per the contract/ policy conditions?

vii. If so, how much is payable?

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

Processing claims is an important activity. All claims forms, procedures and processes have been carefully designed by the company to ensure that all claims ‘payable’ under the policy are promptly paid and those that are not payable are not paid.

The agent, being the representative of the company known to the insured, has to ensure that all the relevant forms are properly filled up with correct information, all documents evidencing the loss are attached and all prescribed procedures are followed in a timely manner and duly submitted to the company. The role of the agent at the time of loss has already been discussed earlier.

2. **Intimation or Notice of Loss**

Policy conditions provide that the loss be intimated to the insurer immediately. The purpose of an immediate notice is to allow the insurer to investigate a loss at its early stages. Delays may result in loss of valuable information relating to the loss. It would also enable the insurer to suggest measures to minimise the loss and to take steps to protect salvage. The notice of loss is to be given as soon as reasonably possible.

After this initial check/ scrutiny, the claim is allotted a number and entered in the claims register, with details like policy number, name of insured, estimate of amount of loss, date of loss, the claim is now ready to be processed.

Under certain types of policies (e.g. Burglary) notice is also to be given to police authorities. Under cargo rail transit policies, notice has to be served on the Railways.

3. **Investigation and assessment**

a) Overview

On receipt of the claim form, from the insured, the insurers decide about investigation and assessment of the loss. If the claim amount is small, the investigation to determine the cause and extent of loss is done, by an officer of the insurers.

The investigation of other claims is entrusted to independent licensed professional surveyors who are specialists in loss assessment. The assessment of loss by independent surveyors is based on the principle that since both the insurers and insured are interested parties, the unbiased opinion of an independent professional person should be acceptable to both the parties as well as to a court of law in the event of any dispute.

b) Claims assessment

In case of fire, claim is assessed on the basis of survey report along with supporting documents. Where necessary Police report/ fire Brigade report, Investigator's report are also obtained. For personal accident claims, the insured is required to submit a report from the attending doctor specifying the cause of accident or the nature of illness as the case may be, and the duration of disablement.

Under policy conditions, the insurers reserve the right to arrange an independent medical examination. Medical evidence is also required in support of “Workmen’s Compensation” claims. Livestock and cattle claims are assessed on the basis of the report of a veterinary doctor.

Information

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

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

Motor third party claims involving death and personal injuries are assessed on the basis of doctor’s report. These claims are dealt by Motor Accident Claims Tribunal and the amount to be paid is decided by factors like the age and income of the claimant.

Claims involving third party property damage are assessed on the basis of a survey report.

- ✓ Motor own damage claim is assessed on the basis of surveyors report.
- ✓ It may require police report if third party damage is involved.

Information

Investigation is different from the assessment of loss. Investigation is done to ensure that a valid claim has been made and verify the important details and doubts like absence of insurable interest, suppression or misrepresentation of material facts, deliberately creating the loss, etc. are ruled out.

Insurance surveyors undertake the work of investigation also. It helps if a surveyor gets on to the job as early as possible. Therefore, the practice is to appoint the surveyor, as soon as possible after the intimation of the claim is received.

B. Role of Surveyors and Loss Assessors

a) Surveyors

Surveyors are professionals licensed by IRDAI. They are experts in inspecting and evaluating losses in specific areas. Surveyors are generally paid fees by the insurance company, engaging them. Surveyors and loss assessors are hired by general insurance companies normally, at the time of a claim. They inspect the property in question, examine and verify the causes and circumstances of the loss. They also estimate the quantum of the loss and submit reports to the insurance company.

They also advise insurers, regarding appropriate measures to prevent further losses. Surveyors are governed by provisions of the Insurance Act, 1938, Insurance Rules 1939 and specific regulations issued by IRDAI.

Claims made outside the country in case of 'Travel Policy' or 'Marine Open Cover' for exports, are assessed by the claims settling agents abroad named in the policy. These agents may assess the loss and make payment, which is reimbursed by the insurers along with their settling fees. Alternatively, all the claims papers are collected by the insurance claim settling agents and submitted to the insurers, along with their assessment.

Important

Section 64 UM of Insurance Act

For the claim more than Rupees fifty thousand for Motor Own Damage and Rupees One lakh for other property damage, Insurers need to appoint surveyors for assessment of such claims. For other claims Insurers may employ other persons (not being a person disqualified for the time being for being employed as a surveyor or loss assessor) for assessment.

5. Claim forms

The contents of the claim form vary with each class of insurance. In general the claim form is designed to get full information regarding the circumstances of the loss, such as date of loss, time, cause of loss, extent of loss, etc. The other questions vary from one class of insurance to another.

Example

An example of information sought in a fire claim form is given here under:

i. Name of the insured, policy number and address

ii. Date, time, cause and circumstances of the fire

iii. Details of damaged property

iv. Sound value of the property at the time of fire. Where the insurance consists of several items under which the claim is made. [The claim must be based on actual value of property at the place and time of occurrence after allowance for depreciation, wear and tear (unless the policy in respect of building, plant and machinery is on "reinstatement value" basis). It shall not include profit]

v. Amount claimed after deduction of salvage value

vi. Situation and occupancy of the premises in which the fire occurred

vii. Capacity in which the insured claims, whether as owner, mortgage or the like

viii. If any other person is interested in the property damaged

ix. If any other insurance is in force upon such property if so, details thereof

This is followed by the declaration as to the truth and accuracy of the statement of in the form and signature of the insured and the date.

The issuance of claim form by the insurance company does not imply or mean that liability for the claim is admitted by insurers. Claim forms are issued with the remark ‘without prejudice’.

Supporting documents

In addition to the claim form, certain documents are required to be submitted by the claimant or secured by the insurers to substantiate the claim.

i. For fire claims, a report from the Fire Brigade would be necessary.
ii. For cyclone damage, a report from the Meteorological office may be called for
iii. In burglary claims, a report from the Police may be necessary.
iv. For fatal accident claims, reports may be necessary from the Coroner and the Police.
v. For motor claims, the insurer may like to examine driving license, registration book, police report etc.
vi. In marine cargo claims, the nature of documents varies according to the type of loss i.e. total loss, particular average, inland or overseas transit claims etc.

Test Yourself 1

Which of the following activities is not considered as professional in settlement of claims?

I. Seeking information relating to the cause of the loss
II. Approaching the claim with a prejudice
III. Ascertaining whether the loss was a result of an insured peril
IV. Quantifying the amount payable under the claim

Test Yourself 2

Raj is involved in a car accident. His car is insured under a motor insurance comprehensive policy. Which among the following is most appropriate for Raj to do?

I. Notify the insurer of the loss as soon as reasonably possible
II. Notify the insurer at the time of insurance renewal
III. Damage the car further so as to receive a bigger compensation
IV. Ignore the damage

Test Yourself 3

Which of the following statements about claims investigation and claims assessment is correct?

I. Claims Investigation and Claims Assessment are the same

II. Claims Investigation is to determine the validity of the claim whereas assessment is whether the loss was caused by an insured peril and whether there was any breach of warranty

III. Claims Assessment tries to determine the validity of the claim whereas investigation is more concerned with the cause and extent of the loss

IV. Claims Investigation is done before the claim is paid and Claims Assessment is done after the claim is paid

Test Yourself 4

Who is the licensing authority for surveyors?

I. Surveyor Association of India

II. Surveyor Regulatory and Development Authority

III. Insurance Regulatory and Development Authority of India

IV. Government of India

Test Yourself 5

Which among the following documents is most likely to be requested while examining a cyclone damage claim?

I. Coroner's report

II. Report from Fire Brigade

III. Police report

IV. Report from Meteorological Department

Test Yourself 6

Under which principle can the insurer assume the rights of the insured in order to recover from a third party the loss paid under a policy?

I. Contribution

II. Discharge

III. Subrogation

IV. Indemnity

Test Yourself 7

If the insurer decides that a certain loss is not payable because it is not covered under the policy then who decides on such matters?

I. Insurer's decision is final

II. Umpire

III. Arbitrator

IV. Court of Law

Summary

a) Settling claims professionally is regarded as the biggest advertisement for an insurance company.

b) Policy conditions provide that the loss be intimated to the insurer immediately.

c) If the claim amount is small, the investigation to determine the cause and extent of loss is done by an officer of the insurer. But for other claims it is entrusted to independent licensed professional surveyors who are specialists in loss assessment.

d) In general the claim form is designed to get full information regarding the circumstances of the loss, such as date of loss, time, cause of loss, extent of loss, etc.

e) Claims assessment is the process of determining whether the cause of the loss suffered by the insured was caused by an insured peril and whether there was any breach of warranty. The quantum of loss suffered by the insured and the insurer's liability under the policy are assessed. This is done before payment of the claim.

f) Settlement of the claim is made only after obtaining a discharge under the policy.

Key terms

a) Intimation of loss

b) Investigation and Assessment

c) Surveyors and Loss Assessors

d) Claim forms

e) Adjustment and Settlement

Answers to Test Yourself

Answer 1 - The correct option is II.

Answer 2 - The correct option is I.

Answer 3 - The correct option is II.

Answer 4 - The correct option is III.

Answer 5 - The correct option is IV.

Answer 6 - The correct option is III.

Answer 7 - The correct option is IV.

SECTION

ANNEXURES

CHAPTER A-01
ANNEXURES

These annexures are provided so that the students get a better idea of proposal forms used in general insurance.

Annexure- A

MOTOR INSURANCE PROPOSAL FORM
PRIVATECAR /TWOWHEELER- PACKAGE POLICY

Proposer's Name		
Address for Correspondence	Identification of Insured	
Telephone & Fax Number		Mobile No:
E-mail Address		
Bank Account No. (SB/Current)		PAN No:
H.P./A./Hypothecation		
Type of Policy Required	**Package policy**	
Period of Insurance	From Time...... Date :	To

Details of Vehicle

Regn. No.	**Eng. No. & Chas. No.**	**Year of Make**	**Make& Model / Type of Body**	**Cubic Capacity**	**Seating Capacity**	**Colour**	**Fuel Used**
	Correct Identification of the vehicle insured						

Registering Authority - Name and location:

Value of the Vehicle:

Invoice Value	**Electric / Electronic Accessories**	**Non-Electrical Accessories**	**Side Car/Trailer**	**LPG/CNG Kit**	**Total Value**	**IDV**
		This is the basis for claim settlement and premium				

History of the Vehicle

Previous Policy No	Type of Cover	Name of Insurer & Address	Entitlement of No Claim Bonus	Date of Policy Expiry	Claim Experience for last 3 years	Date of first Purchase & Regn.

Underwriting factors - bearing on rating

Usage of the Vehicle:

Purpose of Use	Details of Vehicle Parking	Details of Driver	Average km run in a year
Pleasure	Covered Garage	Self	
Professional	Uncovered Garage	Paid Driver	
Business/Trade	Within the Compound	Relatives	
Corporate	Roadside	Friends	

Helps insurer to understand the risk accepted

To know Risk Mitigation / Adverse Risk

Discounts & Loading:

Voluntary Excess: Do you wish to Opt for Voluntary Excess over and above the Compulsory Policy Excess	Yes/No - If yes, please specify the amount Two Wheeler - Rs.500/700/1000/1500/3000 Private
Are you a member of Automobile Association of India	Yes/No If yes, please State: 1. Name of Association 2. Membership No: Date of Expiry :
Is the vehicle fitted with the any Anti-Theft Device approved by ARAI	Yes/No If yes, attach certificate of installation issued by AASI
Whether the vehicle is driven by non-conventional source	Yes/No If yes, please specify the details
Whether the vehicle is driven by Bi--fuel kit / Fiber Glass Tank Fitted	Yes/No If yes, please specify the details
Do you wish to restrict TPPD cover to Statutory limit of Rs.6000/-only	Yes / No

Underwriting factors considered for loading and discount as per company policy

Additional covers required

Theft of Accessories (Two wheelers only)	
Legal Liability to Driver	
PA for paid driver	

Compulsory: Personal Accident Cover for Owner Driver

Personal Accident Cover for Owner Driver is compulsory. Please give details of nomination :

(a) Name of the Nominee & Age:
(b) Relationship :
(c) Name of the Appointee (If Nominee is a Minor) :
(d) Relationship to the Nominee :

Additional coverage subject to additional premium

1. Compulsory PA is Rs.15lakh

o

2. Compulsory PA cover to owner driver cannot be granted where a vehicle is owned by a company, a partnership firm or a similar body corporate or where the owner-driver does not hold an effective driving license)

P.A. Cover for Named Persons

Named Occupants PA Cover for	(IMT-15)	Do you wish to include Personal Accident cover for named persons?			
		Name	CSI Opted (Rs.)	Nominee	Relationship
		1)			
		2)			
		3)			
		YES / NO, If YES, give name and Capital Sum Insured (CSI) opted for: (Note: The maximum CSI available per person is Rs.2 Lakhs in case of Private Cars and Rs.1 Lakh in the case of Motorized Two Wheelers)			

P A cover for unnamed Persons/Pillion / unnamed passengers		
	Add on Cover	
Nil Depreciation		
Courtesy Car		
Medical Expenses		
Personal Effects		

Information which may have a bearing on rating, also for the purpose of some statistics

Other Details

Add on Covers continued

Whether use of vehicle is limited to own premises	Yes/No
Whether the vehicle belongs to foreign embassy	Yes/No
Whether the Car is certified as Vintage Car	Yes/No
Whether the vehicle is designed for use of blind/handicapped persons	Yes/No If yes, please specify the details of Endorsement by RTA
Whether the vehicle is used for Driving Tuitions	Yes/No
Whether extension of Geographical Area is required	Nepal, Bangladesh, Bhutan, Maldives, Pakistan, Sri Lanka.

Do you wish to have a One Page Policy? Yes / No

Based on principle of utmost good faith

DECLARATION BY THE INSURED

I/We hereby declare that the Statements made by me/us in this Proposal Form are true to the best of my/our knowledge and belief and I/We hereby agree that his declaration shall form the basis of the contract between me/us and the ______________________

I/We also hereby declare that any additions or alterations carried out after the submission of this Proposal Form then the same would be conveyed to the Insurers immediately.

I/we wish to confirm that there has been no accident to my/our vehicle since the last Policy Expiry Date till now. I/We confirm that I/We have remitted the premium at...............................on.....................

For the insurance of the above vehicle with you. It is understood and agreed that you have no liability or whatsoever nature for any Loss/Damage/Liability arising out of any accident earlier to................ (time).

I/We declare that the vehicle is in perfect state and roadworthy condition.

Place:

Date :

SIGNATURE OF THE PROPOSER

Proposal Forms of Bharat Griha Raksha, Bharat Sookshma & Bharat Laghu Udyam

For a better understanding of standard products and their respective proposal forms, i.e. Bharat Griha Raksha, Bharat Sookshma and Bharat Laghu Udyam, please check the following link to the IRDAI website.

https://www.irdai.gov.in/ADMINCMS/cms/Uploadedfiles/StandardProducts/Annexure-I-BharatGrihaRaksha.pdf