FIRE INSURANCE

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FIRE INSURANCE

❖ Synopsis

- Introduction of fire insurance.
- Meaning of fire insurance.
- Nature of fire insurance.
- Scope of fire insurance.
- Characteristics of fire insurance.
- Principals of fire insurance/ essentials of fire insurance contract.
- Types of fire insurance.
- Types of losses covered by fire insurance.
- Types of losses not covered by fire insurance.
- A claim for loss by fire must satisfy the following condition.
- Claim settlement procedure in fire insurance.

Introduction

- Insurance is a contract in form of a policy where one party agrees to pay a certain amount for consideration to make the other party liable to recover the amount of damage caused to that party. Insurance is an old concept in India but today it’s becoming very common and important for every person who is either a businessman, or a person holds assets. Protecting the asset or businesses is very important to cover up the losses through insurance.

After marine insurance, fire insurance was created. Only those involved in any kind of trade will benefit from marine insurance. People from all walks of life may be affected by the flames. In four days, the Great Fire of London of 1956 burned 13,000 homes. Fire insurance was born as a result of the “Great Fire.” Fire insurance is a contract that indemnifies the insured for losses incurred. This contract does not aid in the control or prevention of fire, but it does pledge to compensate for the damage. Fire insurance is a contract between two parties, namely, the insurer and the insured, under which the insurer agrees to compensate the insured for losses incurred in exchange for the insured paying an amount known as the “Premium.”

Meaning

- A fire insurance contract is described as "an arrangement" in which one party, in exchange for a consideration, agrees to indemnify the other party for financial loss sustained as a result of the certain subject matter being damaged or destroyed by fire or other defined perils up to an agreed sum.

A fire insurance policy is a type of property insurance policy, which covers the damages and losses caused to a residential or business property due to fire. This policy enables the policyholder to claim compensation for costs incurred towards repairing, replacing or reconstructing a property damaged in a fire. Since it is not possible to predict the estimation of losses due to a fire, insurance providers issue fixed value compensations when policyholders file claims. Therefore, you get the maximum sum assured when you file your claim for fire insurance.

Nature of fire insurance

- Contract of fire insurance is a species of a contract of insurance and it exhibits all the characteristics namely;

1. This is a contract of indemnity.
2. It is a contract based on principal of at most good faith.
3. It must be distinguished from a wagering contract and a contract of guarantee.
4. It is a personal contract and
5. The cause of fire is immaterial generally.

Scope of fire insurance.

Fire insurance plays an imperative role by shielding you against various types of losses or damages which may arise due to fire. Moreover, a fire insurance policy can be purchased by both households and business owners. Here we are talking about fire insurance policies available along with office insurance policies for people in business. However, if you are into commercial activities, there are various properties that you can cover under a fire insurance policy. The scope of a fire insurance policy includes both moveable and immovable properties. Note, it includes all those properties which are on land and does not cover those which are in transit.

Here is the scope of the fire insurance policy

Building =

- Both completed or under construction
- Electricals, partitions, interiors

Plant & Machinery, Equipments & Accessories =

- New Machinery
- Second-hand machinery
- Obsolete machinery

Stocks =

- Raw materials
- Finished goods
- In process
- In trade which belongs to manufacturer, retailer, wholesaler

Other items, like =

- Cables, piping
- Furniture & fixtures
- Tools, spares
- Household items, etc.

Characteristics of fire insurance

- Fire insurance is a contract of good faith.
- F.I. Is a contract of good faith.
- Insurable interest.
- Several policies, each insurer is entitled to contribution.
- Nothing can be recovered if fire is deliberate.

Principals of fire insurance

- Principles of Fire Insurance
- The following are the principles of fire insurance:
- Insurable Interest in fire insurance.
- The principle of Good Faith in fire insurance.
- The principle of indemnity.
- Proximate Cause of fire insurance.
- The doctrine of Subrogation.
- Warranties in fire insurance.

Insurable interest

- Insurable interest is the general concept of insurance without which an insurer cannot be legally applied because insurance without insurable interest is a gambling transaction.
- Insurable interest exists where the subject matter is in such a position that the insured may incur loss during the period of harm and may benefit from its safety. The insurable interest in fire insurance must be present at the time of contract and must continue over the term of the policy and at the time of failure. If the property is sold to another party, the insurance contract will be null and void.
- Similarly, if no insurable interest exists at the time of insurance, the policy is null and void. To be considered an insurable interest, the following conditions must be met. There must be a tangible entity that can be damaged or destroyed by fire. The subject matter of insurance must be the object.

Atmost good faith

- The arrangement of fire insurance is one in which the observance of the utmost good faith (uberrima files) by all parties is critical. The highest level of good faith in fire insurance has two components: first, the disclosure of relevant evidence, and second, the protection of the insured property. Both the insurer and the insured must have clear details on the subject matter of the injury. Since he knows something about the subject matter, the insured must honestly and completely reveal all of the details requested.

Principal of indemnity

- The theory of indemnity seeks to compensate the insured for a loss suffered, and the reimbursement should be designed to put him in as close to the same financial condition after the loss as he was before the incident.
- The insured does not make a claim in excess of the sum needed to recoup the actual loss.
- The insurers agree to make good the insured's loss by cash reimbursement, reinstatement, or substitution, so that the insured is completely indemnified, but only up to the amount insured. The law forbids any insurance that allows the insured to benefit from the loss of the item lost.

Proximate cause

- The rule is that the immediate cause, rather than the remote cause, is to be considered as causa proxima non-remota spectatur. The proximate trigger is important in fire insurance.
- The theory of proximate cause has already been thoroughly explored.
- When paying a claim, the insurer still considers the proximate cause.
- If the insured property is burnt but the fire was caused by an excepted peril, the legal situation is determined by whether the excepted peril was proximate.
- When an explosive bomb destroyed the house, the remote cause was enemy action; the proximate cause was enemy action.

Principal of subrogation

- Subrogation refers to the right of one person to act in the place of another and assert the latter's rights and remedies. Subrogation is merely a corollary to the concept of indemnity.
- According to the principle of indemnity, the insured can only know the actual value of the loss or harm to the property, and it follows that if the damaged property has any value left or the guaranteed can reclaim the lost property or has any right against the third party about that property.

Types of fire insurance

1. **Specific policy**:- is a policy which covers the loss up to a specific amount which is less than the real value of the property. The actual value of the property is not taken into consideration while determining the amount of indemnity. Such a policy is not subject to 'average clause'. 'Average clause' is a clause by which the insured is called upon to bear a portion of the loss himself. The main object of the clause is to check under-insurance, to encourage full insurance and to impress upon the property owners to get their property accurately valued before insurance. If the insurer has inserted an average clause, the policy is known as "Average Policy".

Comprehensive policy

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

3. Valued policy

- is a departure from the contract of indemnity. Under it the insured can recover a fixed amount agreed to at the time the policy is taken. In the event of loss, only the fixed amount is payable, irrespective of the actual amount of loss.

4. Floating policy

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

5. Replacement or Re-instatement policy

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

Types of losses covered under fire insurance.

- Goods spoiled or property damaged by water used to extinguish the fire.
- Pulling down of adjacent premises by the fire brigade in order to prevent the progress of flame.
- Breakage of goods in the process of their removal from the building where fire is raging e.g. damage caused by throwing furniture out of window.
- Wages paid to persons employed for extinguishing fire.

Types of losses not covered under fire insurance

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

A claim for loss by fire must satisfy the following condition

- Loss must be caused by actual fire and not just by high temperature.
- The proximate cause of loss should be fire.
- The loss must relate to subject matter of policy.
- The fire must be accidental, not intentional.

Claim settlement procedure in fire insurance.

- **Notice of fire**: As soon as the fire occurs, the insured must send a notice of loss in writing to the insurance company. If possible, he must submit the evidences of loss and the evidence he did everything to mitigate the loss. If deliberate arson is suspected, an FIR must be lodged with the police and a copy of FIR must be submitted along with the notice.

  Submission of claim: After receiving the notice of fire, the insurance company sends a claim form to the insured. The insured should carefully fill the form as the details given in the form can affect the amount of the claim. Any wrong information can result in the refusal of the claim.

•**Inspection of the property**: The insurance company may send an examiner or an inspector to examine the loss. The inspector makes an inspection and submits it to the company.

•**Assessment of the loss:** After getting the report, the insurance company appoints an agent or an assessor to determine the value of the loss that has to be compensated.

Payment of the claim: The insurance company makes payment to the insured on the basis of the report of the assessor.

•It may also reject the claim on the following grounds:

•The claim is fraudulent.

•The loss was not covered by the fire.

•The loss occurred due to defect in the insured property not disclosed at the time of taking up the policy.

•The loss was not intentional.

•The insured has no insurable interest at the time of the loss.