Fire Insurance: Meaning, Procedure and Principles of Fire Insurance

Meaning:

Fire insurance was started after marine insurance. Marine insurance was useful only to persons engaged in some kind of trade. Fire insurance is a contract to indemnify the loss suffered by the insured. This contract does not help in controlling or preventing fire but it is a promise to compensate the loss.

A fire insurance is an agreement between two parties, i.e., insurer and insured, whereby insurer undertakes to indemnify the loss suffered by the insured in consideration for his (insured) paying of certain sum called 'Premium'.

A fire insurance contact may be defined as 'an agreement' whereby one party in return for a consideration undertakes to indemnify the other party against financial loss which the latter may sustain by reason of certain subject-matter being damaged or destroyed by fire or other defined perils up to an agreed amount.

The term 'fire' must satisfy two conditions:

(a) There must be actual fire or ignition;

(b) The fire should be accidental.

The property must be damaged or burnt by fire. If the property is damaged by heat or smoke without ignition it will not be covered under the word 'fire'.

Procedure for Fire Insurance:

Whenever a person or a business house wants to get its property insured, a proposal form is duly filled. The form has columns for information about the property to be insured. The details of the property, its location and contents are given in the proposal. The insured should give correct answers to all the questions in the form.

Fire insurance contract is based on mutual faith. On receipt of the proposal the underwriter assesses the possible loss involved in the proposal. The proposal may be accepted on its receipt or a surveyor may be sent to assess the proposal. When the underwriter accepts the proposal, the contract comes into existence. Sometimes a cover note is issued immediately and the policy is sent later on. A cover note binds the insurer to indemnify the risk. The risk coverage starts on the payment of premium.

Generally, a fire insurance policy is issued for one year but it may be periodically reviewed. The insurance company informs the insured two weeks before the expiry of the policy so that it may be renewed. However, two weeks are given as grace period after the expiry of the policy. The insured can get it renewed within the grace period and insurance coverage continues in the mean time.

The insured must have insurable, interest in the property to be insured both at the time of taking up of the policy and at the time of occurrence of the loss. If the insurable interest passes on to another person, the insurance coverage ends unless otherwise the underwriter (insurance company) agrees to continue it.

General Principles of Fire Insurance:

6 principles of fire insurance are;

1. Insurable Interest in Fire Insurance.
2. The principle of Good Faith in Fire Insurance.
3. The principle of indemnity.
4. Proximate Cause of Fire Insurance.
5. The doctrine of Subrogation.
6. Warranties in Fire Insurance.

Bases on the type of fire insurance policy these 6 principles of fire insurance policies apply.

Principles of insurance should be properly followed by fire insurance to fulfill the objections.

Insurable Interest in Fire Insurance

Insurable interest is the general principle of insurance without which an insurer cannot lawfully be enforced for insurance unsupported by an insurable interest would be a gambling transaction.

Insurable interest will be there where the subject-matter should be in such a position that the insured may suffer loss at the time of damage and may gain by its protection.

The insurable interest in fire insurance must be present at the time of contract continue throughout its currency and at the time of loss. The insurance contract will be invalid if the property is sold to another party.

Similarly, if there is no insurable interest at the time of insurance, the contract will be invalid. The following conditions must be fulfilled to constitute an insurable interest.

☐ There should be a physical object capable of being damaged or destroyed by fire.

☐ The object must be the subject matter of insurance.

☐ The insured must stand in such a relationship as recognized by law where the insured is benefited by the safety of the subject-matter or be prejudiced by its loss.

The insurable interest is the 'pecuniary interest'. The fire insurance is a personal contract between the insured and the insurer. So, the transfer of interest would invalidate the contract.

The following persons have an insurable interest in the subject-matter concerned.

1. The owner of the property or asset whether fixed or current has as insurable interest whether he is the legal owner or the equitable owner. The owner may be a single or joint, holder. The partial owner can take a policy for full value as trustee of all the property. A Life tenant entitled to the use of the property during his lifetime only has an insurable interest.

2. An agent has an insurable interest in the property of his principal.

3. A partner has an equitable interest in the firm's property.

4. A creditor has an insurable interest in a property on which he has a lien for the debt.

5. An insurer has it in respect of risks underwritten by him for the purpose of reinsurance.

6. Where the subject-matter is mortgaged, the mortgagor has an insurable interest in the full value thereof and the mortgagee has an insurable interest in respect of any sum due to become due under the mortgage.

7. A bailee can insure any article or property bailed, He may be a gratuitous bailee or bailee for a reward.

8. A trustee has an insurable interest in the property put on trusteeship.

The principle of Good Faith in Fire Insurance

The contract of fire insurance is one in which the observance of the utmost good faith (uberrima files) by both the parties are of vital significance.

The utmost good faith in fire insurance has two aspects first, the disclosure of material facts and second, preservation of the property insured. The insurer and the insured must furnish detailed information regarding the subject-matter to be injured.

The insured, since he has more, information about the subject-matter, must disclose all the information asked truly and fully.

The assured is also required to disclose all the material information which are known to him although it was not asked by the insurer; the material fact is one which influences the decisions of the insurance.

The decision may be pertaining to the acceptance or declination or determination of the premium.

In the case of fire insurance, the examples of material facts are the construction of buildings. If the assured has not observed good faith, the contract can be avoided by other parties. !t was immaterial to plead that the insured was unaware of the fact and could not disclose.

In a given circumstance, it is expected from the insured to know all the material facts. The insurer has also to disclose such material facts as are within his knowledge.

The second phase of good faith is the preservation of property.

Thus;

The observance of good faith is necessary not only during the negotiations of the contract but throughout the term of the policy and in making claims.

Any change after the commencement of risk must be communicated to the insurer.

The insured or his agents, as well as the insurer, must take all such steps as may be reasonable for averting or minimizing loss.

Since the insured is near to the property, he must act to prevent fire and if a fire occurred, he must do his utmost to extinguish it. In such cases, he must act as if he was not insured.

Principle of indemnity

The doctrine of indemnity aims to compensate the insured for a loss sustained, and the compensation should be such as to place him as nearly as possible in the same pecuniary position after the loss as he occupied immediately before the occurrence.

The insured cannot claim anything in excess of the amount required to recoup tie actual loss sustained.

The insurers undertake to make good the insured’s loss by monetary payment or by reinstatement or replacement so that the insured shall be fully indemnified, but this is subject to the sum insured.

The law does not sanction any insurance which would enable the insured to profit from the destruction of the thing destroyed. It will check the temptation to destroy the property insured thereby to secure the money.

The assured amount is not the measure of indemnity but it sets an upper limit up to which the loss can be indemnified.

The actual amount of indemnity will be the market value of the subject- matter destroyed or damaged by fire at the time and place of the occurrence of fire. It will never exceed the assured amount.

When the actual loss is more than the assured amount then only the insured sum will be paid and nothing more is paid. But, this principle does not hold well when the policy is valued policy.

Here, the basis of indemnity will not be the actual cash value of the property at the time of loss but the insured value which is named in the policy when it was taken.

In a valued policy, no consideration is given to the actual loss. Thus, the amount of claim may be greater or less than the actual loss at the time of the fire in case of valued policies.

Interpretation of Indemnity

The insured is entitled to perfect indemnity subject to the sum assured is sufficient.

But, in practice, such perfection may be difficult to attain.

Previously;

The meaning of the word ‘indemnity’ was understood in the sense of material indemnity only, i.e., tangible and material property only.

The intangible loss, i. e., loss of profit, rent, etc. was not compensated. It worked as a great hardship to honest insured persons.

Now;

The insurance is extended to cover not only the material loss of property insured but also to cover the ‘consequential loss’.

When a business property is burnt, not only the material loss on account of the destruction of the building, plant and stock are covered but the consequential loss of profits on account of the cessation of sales, salaries, taxes, rent, rates, etc., are also indemnified.

Nowadays tangible and intangible losses are insured and the consequential loss is also within the meaning of indemnity.

Consequences of Indemnity in Fire Insurance

The consequences of the doctrine of indemnity are as below:

☐ The insured may claim only the amount of the loss sustained.

☐ In the case of partial damage, the insured may claim compensation only for the amount of damage done.

☐ The insured must transfer to the insurer any rights which he may possess against a third party in respect of the loss.

☐ If the insured have affected more than one policy, he is precluded from obtaining more than one complete indemnity.

A measure of indemnity varies with the type of property.

For damaged buildings, the measure of indemnity is the cost of repairing or reinstating the buildings to their pre-loss condition.

Similarly, for machinery, the measure of indemnity is the market value which is arrived at after taking into account wear and tear and depreciation.

For stock in trade, the measure is the net cost to the insured. The indemnification may be in the form of cash, repair, replacement, and reinstatement.

Proximate Cause of Fire Insurance

The rule is that the immediate and not the remote cause is to be regarded as causa proxima non-remota spectature. Proximate cause is very important in fire insurance.

The principle of proximate cause has already been discussed in detail.

The insurer always takes the proximate cause while paying the claim.

If the property insured is burned but the fire was preceded and brought into operation by an excepted peril, the legal position depends upon whether the excepted peril was proximate.

The remote cause is when an incendiary bomb damaged the property; the proximate cause is enemy action.

Proximate cause is the active efficient cause that sets in motion a train of events which brings about a result without the intervention of any force started and working actively from a new and independent source, it is dominant, effective and proximate cause to the exclusion of all other causes which are too remote.

If the loss is attributed to the insured perils, the direct and unavoidable result that direct causal relationship is established, the insurer is liable for the loss.

Doctrine of Subrogation

Subrogation means the right of one person to stand in the place of another and to avail himself of the latter's rights and remedies. The principle of subrogation is just a corollary to the principle of indemnity.

The insured can realize only the actual value of the loss or damage to the property according to the principle of indemnity and it follows that if the damaged property has any value left or the assured can recover the lost property or has any right against the third party regarding that property.

These must pass on to the insurer.

If the assured is allowed to retain them, he shall have realized more than the actual loss which is contrary to the indemnity principle.

The assured can proceed against the third party, if he so, desires, and if lie recovers damage the insurer is relieved of liability.

If the insured has received the full amount of his loss any sums obtained from the third party belong to the insurer up to the amount of their disbursement.

The right of subrogation is exercisable at common law after the insurer has paid the claim made against him.

Warranties in Fire Insurance

The contents of the proposal form are expressly incorporated in the policy, which forms warranty.

Warranty is that by which the assured undertakes that some particular thing shall or shall not be done, or that some conditions shall be fulfilled or whereby he affirms or negatives the existence of a particular state of facts.

Warranties which are mentioned in the policy are called express warranties and those warranties which are not mentioned in the policy are called implied warranties.

Implied warranties

The first implied warranty is that the property structure is not inferior e.g. kaccha house should not be made of wooden roof of thatched leaves grass, hay or bamboo cloths, etc.

There is a second warranty that Fire Extinguishing Appliances should be fixed with the property.

Annual maintenance is essential.

There should not be the possibility of silent risks i.e. new construction addition. The special articles and property exposed to fire must be provided to the safety senders against fire.

The subject-matter of insurance must exist when the contract is affected and should be identified in the event of a loss.

The identification is based on the locality, municipal number, surrounding and full description of the place, a breach of warranty enable the insurer to avoid the claim.

Warranties must be complied with literally and the effect of a breach of warranty is to render void the relevant item of the policy, even if no increase in risk is involved.

Every warranty to which the property insured or any item thereof is, or maybe, made subject, shall from the time the warranty attaches apply and continue to be in force during the whole currency of the policies, and non-compliance with any such warranty, whether it increases the risk or not, shall be a bar to any claim in respect of such property or item.

The condition states that every warranty is attached during the whole currency of the policy and if during this period a warranty has not been complied with, the insured will not entertain any claim in respect of the property or item affected.

However, if the policy is renewed and there was a breach of a warranty before the renewal date and not after it and a loss occur after the renewal is affected, in such a case the claim can be made.

Non-compliance with a warranty prior to the current renewal period of a policy is not a bar to a claim.

The non-compliance with a warranty avoids a cover only during the period of insurance in which the breach occurred. These are the ways that the principles of insurance used in fire insurance.

15 Types of Fire Insurance Policies

Fire insurance policies are classified into 15 types ***based on insurance hazards***, insured risk, business type, policy rules.

Insurance companies provide 15 different fire insurance policies to cover the losses caused by fire for businesses. There are different forms of policies for different types of policies.

For meeting various needs of the businesses and individuals, there are various types of fire policies that are issued.

Types of Fire Insurance Policies;

1. Valued Policy.
2. Valuable Policy.
3. Specific Policy.
4. Floating Policy.
5. Average Policy.
6. Excess Policy.
7. Declaration Policy.
8. Adjustable Policy.
9. Maximum Value of Discount Policy.
10. Reinstatement Policy.
11. Comprehensive Policy.
12. Consequential Loss Policy.
13. Sprinkler Leakage Policies.
14. Add on Covers Policy.
15. Escalation Policy.

Fire insurance follows insurance principles. The 15 types of fire insurance policies are explained below;

1. Valued Policy

The value of the property to be insured is determined at the inception of the policy.

In this case;

The insurer pays the total admitted value irrespective of the then market value of the properties. The measure of indemnity is, in consequence, not value at the time of the fire, but a value agreed upon the inception of the policy.

The insurer pays the insured a fixed sum following the destruction of the insured property.

The amount fixed may be greater or less than the actual market value of the property destroyed by fire at the time of loss. In this policy, the measure of indemnity is based on the value of properties rather than on the market values of the property destroyed.

This policy is used for insuring especially pictures, sculptures, works of art, jewelry, rare things, articles of everyday use.

Since the value of damage of these articles cannot be easily determined at the time of loss, the valued policies are commonly used.

Strictly speaking;

the valued policies are betrayal from the principle of indemnity because the market price is not paid in this case.

The valued policy is beneficial to the insured because he is relieved of proving the value of the property at the time of loss by searching for invoices and receipts.

The disadvantages are that the new purchases and replacement cannot be added to the valued policy.

The valuation, therefore, is revised at frequent intervals. The insurer will have to pay more than the actual loss if the market price of the property has gone down.

It may increase the moral hazard. There may be difficulty in settling the partial losses. The valued policies can be disputed on the grounds of fraud.

2. Valuable Policy

The valuable policy is that policy where the claim amount is to be determined at the market price of the damaged property.

The amount of loss is not determined at the time of commencement of risk but is determined at the time and place of loss. This policy is truly representing the doctrine of indemnity.

3. Specific Policy

Where a specific sum is insured upon a specified property in case of a specified period, the whole of the actual loss is payable provided it does not exceed the insured amount.

Here the value of the property insured has no relevance in arriving at the measure of indemnity in a specified policy and the insured sum sets a limit up to which the loss can be made good.

4. Floating Policy

The floating policy is the policy taken to cover one or more kinds of goods at one time under one sum assured for one premium and about the same owner.

This policy is useful to cover fluctuating stocks in different localities.

Since the properties are spread over various localities and in different forms, the physical and moral hazards are also varying and, therefore, it makes difficult to determine premium rates.

In India, the premium rate is approximately the same in such cases except for the case of the most hazardous risk.

Such policies are specially taken by big manufacturers or traders whose merchandise might be lying in parts of the warehouse, port, or railway station.

In such cases, it is very difficult for the owner of such goods to take a specified policy for each good because the quantities of the goods deposited in each will fluctuate from day to day, place to place, according to sales or consumption or consequent removal and replacement.

The average rate of premium is ascertained by taking into account the total premium payable had the property been insured by specific policies.

The floating policy contains the ‘average’ and ‘marine’ clauses. The policy is taken only on stocks. The policy cannot be issued in respect of the immovable property.

The address of each warehouse has to be declared by the insured. Unspecified locations cannot be covered. The entire complex is under the control of the insured. There is an extra premium for additional risks.

5. Average Policy

The policy is containing an ‘average clause’ called an Average Policy. The amount of indemnity is determined concerning the value of the property insured.

If the policyholder has taken a policy for a lesser amount than the actual value of the property, the insured will be deemed to be his insurer for the amount of under-insurance.

The insurer will pay only such proportion of the actual loss as his insurance amount bears to the actual value of the property at the time of loss.

For example;

the property worth $30,000 is insured for $20,000 is damaged up to $12,000, the insurer will pay only Rs. 8,000 as is evident from the following:

Claim = Insured amount / value of property X actual loss

The insured, thus, will suffer him up to $4,000 and the insurer will pay only $8,000 out of Rs. 12,000. In this case, if the insurance were taken up to the full value of the property, the assured would have been paid all the financial loss, i.e., $12,000. Since the insurance was taken for lesser than the actual value of the property, the assured is compensated for the loss in that proportion.

The average clause is operative only in the case of under-insurance. This clause is ineffective when the property is insured for the full value as in that case the insured is protected to the extent of his total loss.

The under-insurance penalizes the assured by inserting ‘average clause’ to the policy because he is supposed to insure himself for the amount by which he under-insures his property and,

Therefore;

It supposed to contribute in that ratio to the loss sustained.

The average clause is accompanied, sometimes, with the co-insurance clause which is discussed in the next chapter.

6. Excess Policy

Sometimes, the stock of a businessman may fluctuate from time to time, and he may be unable to take one policy or a specific policy.

If he takes a policy for a higher amount, he has to pay a higher premium.

On the other hand;

if he takes insurance for a lower amount, he will have to bear the proportionate amount of loss.

The insured in this case can purchase two policies, one ‘First Loss Policy” and the second, ‘excess policy.’ The ‘First Loss Policy’ will cover that stock below which the stock never goes.

The minimum level of stock can be found out from the experience and for the other portion of stock which exceeds the minimum limit; he can purchase another policy called ‘excess policy’.

The actual value of the excess stock is declared every month. The amount of premium is calculated on the average monthly excess amount.

Since the chances of payment on the excess amount are very remote, the rate of premium is also very nominal.

Thus;

The insured will pay a very nominal premium as compared to the premium payable on the total amount had the policy been a specific one. The average .clause also applies to this policy.

7. Declaration Policy

The excess policy contributes to only a rateable proportion of the loss because if the amount of excess stock exceeds the sum set in the excess policy, the businessman will not have a full cover owing to the average condition.

Moreover, if the First Loss Policy was also subject to an average condition, the assured will be at a loss. The declaration policy will give better protection in such cases where the stock fluctuates from time to time.

Under the declaration policy, the insured takes out insurance for the maximum amount that he considers would be at risk during the period of the policy.

On a fixed date of every month or a specific period, the insured furnishes a declaration of the amount. The premium is provisionally paid to 75% of the annual premium amount.

Practically;

the annual premium is determined on the average of these declarations; If the premium is higher than the provisional premium already paid, the insured has to pay the difference to the insurer.

On the other hand, if the premium so calculated is lesser than the premium already paid, the excess is returned to the policyholder.

The declaration must be made on a specified day or within the next 14 days. Otherwise, the sum insured will be deemed to be the declared value. The policy applies only to stocks and the sole property of the insured.

The great advantage of this policy is that the premium is limited to the actual amount at risk irrespective of the sum insured. Unlike the excess policy, the premium is not unnecessarily paid.

Moreover;

the insurer may pay up to the sum insured throughout the policy because the premium amount can be adjusted accordingly.

The value of risks is an average of each day of the month or the highest value at risk during the month. Declaration policy is not available for a short period stock in process, stock at Railway siding.

Premium is adjusted at the expiry of the policy. The policy is very advantageous to those businessmen whose stocks fluctuate from time to time.

The amount of the declaration offers scope for fraud because the insured may pay a lesser premium by undervaluing the stock. Therefore, this policy is issued only to reputed concerns.

8. Adjustable Policy

The above disadvantage is removed by an adjustable policy. This policy is nothing but an ordinary policy on the stock of the businessman with the liberty to the insured to vary in his opinion; the premium is adjustable pro-rata according to the variation of the stock.

In the case of declaration policy, since the excess premium is refundable at the end of the year, the insured may put fire to the property.

This danger is avoidable in an ‘Adjustable Policy’. This is issued for a definite term on the existing stock.

The premium is calculated frequently and is paid in full at the inception of the policy.

Whenever there is variation in the stock, the insured informs the insurer. As soon as the information of variation is received, the policy is suitably endorsed and, the premium is adjusted on a pro-rata basis.

The policy amount will, thus, be changeable from time to time. The premium is also settled accordingly.

Difference between Declaration and Adjustable Policies

In case of declaration policy, the insurer's liability is the insured amount, but in the case of an adjustable policy, the insurer's liability is the value of the last declaration made.

The periodical declarations have no direct bearing on the measurement of indemnity in case of declaration policy, but these have been the basis of measurement of indemnity.

The advantage of the declaration policy over the adjustable policy is that in the former a margin of safety is present because the maximum amount insured is always at risk, but in the latter case, The cover is always for the declared value.

The declaration is, the case of declaration policy is meant only for ascertaining the average of the actual cover given throughout the year to arrive at the figure to which the actual premium will be calculated, but in the case of adjustable policy, the declaration is the basis of policy amount adjusted by endorsement.

The drawback of this policy is that the insured will have to deposit 75 percent of the premium fixed for the maximum coverage in the beginning although a portion of it is found more than the actual premium required for the full coverage, which will be returned at the end of the year.

In the case of adjustable policy, the premium is adjusted from time to time according to the variation of the risk and the liability of the insurer.

9. Maximum Value of Discount Policy

Under this policy, no declaration or adjustment of policy is required, but the policy is taken for a maximum amount, and the full premium is paid thereon.

At the end of the year, in the case of no loss, one-third of the premium paid is returned to the policyholder.

This policy is similar to the declaration policy where botheration of checking and recording declarations is avoided.

It serves as a rough and ready method of coverage for the maximum amount. This policy is not issued on all types of commodities and is confined only to selected commodities.

10. Reinstatement Policy

This policy is issued to avoid the conflict of indemnity, in other types of policies only the market value of the damage or loss is indemnified but, this policy undertakes to reinstate the insured property loss by fire to new condition irrespective of its value at the time of loss.

In other types of policies, in the case of building or machinery, the actual loss is arrived at by deducting the regular depreciation from the original cost of it. The amount of indemnity will be lesser than the amount to be spent in reinstating the property destroyed or damaged.

To provide full coverage, ‘reinstatement or replacement’ policies are issued.

Under this policy, the basis of settlement in the event of destruction is the cost of rebuilding the premises, or in the case of plant and machinery, the placement is done by similar machinery.

The reinstatement of the damaged property indicates the meaning of repair of the damages.

The restoration of the damaged portion of the property to a condition substantially the same as but not better or more extensive than its condition, at the time of its renovation.

The cost of the property when partially destroyed will not be more than the cost which would have been insured if such property has been destroyed.

The payment of the actual expenditure on the replacement will not be made until the expenditure has been incurred. This policy is also called ‘New for Old’ policy because the old property is replaced by new properties.

However, such policies are issued only on a building, plant, and machinery. This policy is not issued on the stock, merchandise or materials.

Each item of the insured property is subject to average. The policy provides a definite amount in case of purchase of new property in place of the old property destroyed.

The reinstatement Policy stipulates that reinstatement must be carried out by the insured to obtain the special basis of the settlement agreed.

The reinstatement must be commenced raid carried out with reasonable dispatch and in any case, must be completed within 12 months after the destruction or damage, or until reinstatement carried out and expenditure incurred, the liability under the policy remains on the normal indemnity basis.

The insurance by this policy intends to include such additional cost of reinstatement as may be incurred solely because of the necessity to comply with the building, etc. by any Act of Parliament, Municipal or Local Authority.

No additional premium is charged for the purpose. This policy does not cover any destruction or damage occurring before the granting of this extension.

11. Comprehensive Policy

This policy undertakes full protection not only against the risk of fire but combining within the risk against burglary, riot, civil commotion, theft, damage from the past, lightning. The policy is also termed as ‘All in policies’.

Here the ‘Comprehensive’ does not mean that every type of risk is covered. There may be many exclusions and limitations.

This policy is beneficial to the insured and the insurer. The insurer can get a higher premium, and the assured is protected against losses due to several specified perils.

12. Consequential Loss Policy

The fire insurance is originally purchased to indemnify the material loss only. The intangible interest was not indemnified. This provided a check on the insured to exercise greater care concerning the property.

However, the settlement of a loss covering material damage only was not sufficient. The consequential loss was also to be provided. Thus, the consequential loss policy includes the loss of tangible and intangible properties.

Thus, this policy provides an indemnity to the insured for loss of net profits, payment of standing charges and expenditure in respect of the increased cost of working.

As a consequence of fire, there is a reduction in the volume of business which in its turn leads to a reduction in the net profit which the lost business would have ordinarily contributed and to an increase in the proportion of the standing barges such as rents, rates, salaries and others to the total business done.

Thus, the policy is to indemnify the insured against financial loss which he may sustain due to the interruption of his business following a fire.

Previously;

the measure of indemnity was a specified percentage of the amount payable under an ordinary fire policy in respect of a material loss.

The insurer, thus, used to pay the amount of loss and a specified percentage of the loss. However, now, the measure of indemnity is changed because the specified percentage cannot be the true estimation of the intangible loss.

So, the resultant loss is calculated by estimating figures of loss of profits based on a reduction in turnover or output and secondly, increased cost of working in maintaining the business on its pre-fire level.

13. Sprinkler Leakage Policies

This policy insures the destruction of or damage to by water accidentally discharged or leaking from automatic sprinkler installation in the insured premises.

However,

The discharge or leakage of water due to heat caused by fire, repair or alteration of building nr sprinkler installation, earthquake, war, explosion are not covered by this policy.

14. Add on Covers Policy

An insured may like to cover his property against to delete some of the exclusions. The cover in respect of these perils is provided by the insurer by charging an additional premium.

This additional cover is effected by either deletion of some of the excluded perils or the addition of other specified perils.

The perils which are covered by an endorsement of the basic fire policy are collectively called Add-on Covers. For example, earthquake damage is added to the fire policy.

There are certain principles to add to covers. It is an extension of the basic standard fire policy. The liability shall in no case under the extension of the policy exceed the sum insured of the policy. All the conditions of the basic fire policy shall apply to the insurance granted by extension.

Add on the cover is mid-term inclusion but the annual premium has to be charged and not short period premium.

If the insured requests for the add on the cover to be canceled midterm the no refund of premiums for the cancellation will be allowed unless the entire policy is canceled.

15. Escalation Policy

This insurance allows an automatic regular increase in the sum insured throughout the policy in return for an additional premium to be paid in advance.

There are certain conditions for escalation insurance. The escalation of the policy amount shall not be more than 25 percent of the sum assured.

The additional premium payable in advance will be at 50% of the full rate. This policy applies to policies covering building, Machinery, and accessories only and will not apply to policies covering the stock.

The clause cannot be opted for during the currency of the policy but only at inception or renewal.

The effect of this policy/clause is to provide for a daily increase in the sum assumed based on the percentage selected spread throughout the policy;

It also allows an automatic regular increase up to 25% of the sum insured throughout the policy in return for an additional premium to be paid in advance.