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Subject: Non - Life Insurance - PPP

Chapter: Product, Underwriting & Claim settlement 1

Corporate Product Lines – Property (Fire) Insurance

Category: Notes

Property Insurance

Property Insurance provides property protection or liability coverage .The policy that provides financial reimbursement to the owner or renter of a structure and its contents, in the event of damage or theft.

When considering the purchase of property insurance, you need to decide what should be insured as well as against what perils it should be insured.

- Perils – are the causes of loss such as fire, wind or theft
- Real property – property permanently attached to land such as a house or garage
- Personal property - property not attached to land such as furniture or clothing.

Perils covered

- Lightning
- Explosion/implosion
- Aircraft damage
- Riot, Strike
- Terrorism storm, flood , inundation
- Impact damage

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Exclusions

- Loss or damage caused by war, civil war and kindred perils
- Loss or damage caused by nuclear activity
- Loss or damage to the stocks in cold storage caused by change in temperature
- Loss or damage due to over-running of electric and/or electronic machines

Types of property Insurance policies

- Individual policies – policies to cover against specific perils like

  Standard Fire policy

  Extended coverage – to include damage caused by perils such as wind, smoke, hail and falling aircraft. Coverage can also be taken against flood , earthquake

- Renters policies – policy created for renters of apartments , homes .

  The policy covers household goods and personal belongings

  This does not cover the dwelling itself.

- Home-owners policies – policy covers losses and damages to an individual's residence, along with furnishings and other assets in the home. It also provides liability coverage against accidents in the home or on the property.

Underwriting factors for commercial property insurance

1. Maintenance and repair standards

The status of maintenance, repair, and upkeep of a commercial building is an indicator of management's commitment and the resources available to sustain the building's condition over time. Understanding maintenance practices is an important part of the risk selection process for a commercial property underwriter.

2. High-risk notifications

We've focused on ten essential pieces of information—to help you make the right business decisions.

A high-risk notification lets you know immediately when a survey uncovers a serious hazard on a property. With our High-Risk Notification Service, a field analyst calls you at once when hazards or conditions are discovered that present immediate potential for loss. Next, the field analyst follows up with a detailed email and photographs to document the hazardous conditions. That allows you to take prompt action, which may include making recommendations to the property owner to eliminate the hazards.

3. Adjacent exposure data and related general liability exposures

Data on adjacent buildings, including exposed walls, hazards, construction, and distance, provides an underwriter with critical information. For example, a property near a high-hazard operation or next to a storage tank with flammable liquids can present serious potential risks. Underwriters should also know about additional exposures, such as:

- local wildfire risk
- possibility for damaging winds and/or flood waters
- the buildings proximity to a flood or earthquake zone

Information on liability exposures can be of assistance to a commercial underwriter's assessment of risk at properties they're insuring. Premises exposures—such as storage areas, balconies, stairs, and handrails—can play a significant role in underwriting decisions. You also need accurate information on other premises exposures, such as swimming pools, animals, lighting, fire escapes, and elevators.

4. Loss estimates

Understanding scenarios for loss and their potential for economic loss is a critical assessment every underwriter makes. There are two definitions of loss estimates: Type 1 is an estimate of the maximum expected loss in a single fire, expressed as a percentage of the building's value, when critical protection systems are functioning as expected. Type 2 is an estimate of the largest fire loss likely to occur if a key loss-mitigation system, such as automatic sprinkler protection, fails. The two measures can help you understand the extent of the risk and manage it better through hazard and loss analyses. You can assess economic loss to the property and determine the amount of reinsurance you need.

Industry studies show that 75 percent of commercial buildings are underinsured.

5. Estimated replacement costs

Industry studies show that 75 percent of commercial buildings are underinsured. Insurers need accurate assessments of replacement costs in case of an event. The estimate will improve your ability to charge premiums appropriate to your risk, better quantify exposure, and help you inform your customers on adequate policy limits.

6. Risk improvement recommendations

It's important to have reliable information on observed building and occupancy hazards and fire protection features for underwriting and pricing. By obtaining a recommendation, you'll get the information on the building and each occupant. A recommendation should include specific information to identify hazardous conditions, highlight fire protection measures, and suggest modifications for both. The information can help you price coverage more accurately and provide a valuable cost-benefit analysis for suggested improvements.

7. Construction

Determining a fire risk is an underwriting necessity for a property insurance policy. One of the main considerations in making that determination is assigning the proper construction class: What are the materials? What percentage of the structure consists of each? And how much damage will the building sustain when exposed to fire? Properly identifying the construction class can help the underwriter rate the risk more accurately. Six primary construction classes for commercial buildings can be defined

Construction Class 2 — Joisted Masonry

- Construction Class 3 — Noncombustible
- Construction Class 4 — Masonry Noncombustible
- Construction Class 5 — Modified Fire Resistive
- Construction Class 6 — Fire Resistive

8. Occupancy

Occupancy data considers the following information about a business being conducted in a building. Verisk and ISO measure information in the following ways:

- numerical ranking of combustibility of contents, which measures their effect on the structure under fire conditions
- numerical ranking of susceptibility of contents, which measures potential damage to materials or merchandise from the effects of fire, smoke, and water

- square footage for each floor level
- sprinkler and extinguisher protection credits

9. Fire protection

There are two broad segments of fire protection, public and private. For instance, evaluates a community's public fire protection services, including the fire department, water supply, emergency communications, and community risk reduction programs.

Private fire protection systems are fire safeguards at the property and include extinguishers, alarms, and automatic sprinkler systems. Automatic sprinklers are the most reliable and effective fire protection devices available today, provided they operate correctly. Underwriters need to know if they will operate when needed and to make sure risks get full credit for such systems. A working sprinkler system is critical for insurance rating and prevention of extensive property damage.

10. Common and special hazards

Every underwriter should have a good understanding of both common and special hazards. If you're underwriting a commercial property, everyone benefits when you give your insured recommendations for reducing hazards and improving protection deficiencies at the property. Knowing the hazards lets you adequately price the risk based on current conditions. Common hazards include deficiencies in electrical components, heating systems, and housekeeping. Special hazards include flammable and combustible liquids, spray-painting operations, commercial cooking, welding, and cutting.

Fire Insurance

A fire insurance policy involves an insurance company agreeing to pay a certain amount equivalent to the estimated loss caused by fire to the insured, within the time specified in the contract.

Who can avail fire insurance?

Any person or firm that has a financial interest in the property to be insured can avail this insurance. This means that owners of property, firms that hold property in trsut or on commission and financial institutions which have a financial interest in a property can avail this insurance.

Under fire insurance, the following persons have insurable interest in the subject matter:-

- Owner
- Mortgagee
- Pawnee
- Pawn broker
- Official receiver or assignee in insolvency proceedings
- Warehouse keeper in the goods of customer
- A person in lawful possession e.g. common carrier, wharfing, commission agent.

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Objects Covered

- Building
- Electrical installations in buildings
- Machinery, Plant and equipment
- Goods (raw materials , stocks in process, semi-finished , finished) in factories
- Godowns , goods in open
- Contents in dwellings (households)
- Shops , hotels etc
- Furniture , fixture and fittings , pipelines located inside or outside the compound

The types of losses not covered by a fire insurance policy are:-

- 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.

Add – on coverages

- Add-ons on payment of additional premium
- Perils
    - Forest Fires
    - Impact damage due to insured's own vehicles
    - Spontaneous combustion
    - Leakage and contamination cover
    - Temporary removal of stocks
- Expenses
    - Architects , surveyors and consulting engineer's fees
    - Debris removal
    - Loss of rent
    - Start up expenses

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Type of fire insurance policies

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.

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.

· **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'.

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.

What are the underwriting factors considered in fire insurance?

All buildings, Residential or Commercial are rated on the same factors. Is it built on a slab or is there a crawl space underneath? How old it? What is it constructed of, Wood walls, Brick or Concrete Block Walls, OR Poured Concrete? What is the roof made of (underneath the covering) Wood Joists or Concrete (what type)? What is the shape of the roof, Flat, Gabled Ends, Hip, or Other? What covering is on the roof, shingles, tile (concrete or clay), metal, or concrete roof? If over 20 years, have the systems been upgraded - Electrical, Plumbing, Roof, HVAC?

Some credits include Burglar and/or Fire Alarms that ring at a central station (local alarms get you no credits). In hurricane zones Shutters on ALL openings (doors & windows) OR Hurricane Proof windows & doors. New Homes get credits too, generally up to 10 years. Specific companies might have other credits.

Lastly where the property is located, the amount that you are insuring it for, and the deductible that you select will all factor into the final cost.

- Type of construction
- adjacent exposure data and general liability exposures
- construction material
- fire safety
- protection and control systems
- compliance with engineering recommendations
- location of water sources
- age of building and utilities,
- Estimated loss
- Estimated replacement cost
- residential or commercial, if commercial, what business is being conducted

- type of contents of the building
- claims history
- credit rating of the owner.

Insurance Frauds

Insurance fraud is any act committed to defraud an **insurance** process. This occurs when a claimant attempts to obtain some benefit or advantage they are not entitled to, or when an insurer knowingly denies some benefit that is due. Insurance fraud is an illegal act on the part of either the buyer or seller of an insurance contract. Insurance fraud from the issuer (seller) includes selling policies from non-existent companies, failing to submit premiums, and churning policies to create more commissions. Buyer fraud can consist of exaggerated claims, falsified medical history, post-dated policies, viatical fraud, faked death or kidnapping, and murder.

Fire insurance fraud reported as of 2014
The mystery of two deaths in the January-22 car fire incident near Manawala village on the national highway-1 here is reported to be solved.

The Chevrolet Beat's catching fire and burning to death its occupants on their journey to Chandigarh was no accident but a staged-managed murder for claiming crores of rupees of insurance by fraud. The conspirators killed two poor labourers to show self as dead to the insurance company.
After more than a month of investigation, the police have arrested four people under Sections 302 (murder), 364 (kidnapping for murder), 420 (cheating), 426 (punishment for mischief), 115 (abetting crime punishable with death or life imprisonment), 120-B (punishment for criminal conspiracy) and 201 (causing disappearance of evidence or submitting false statement) of the Indian Penal Code (IPC) in the case lodged at Chhatiwind. The accused are on the run.
Besides superintendent of police (detective) Rajeshwar Singh Sidhu and his team of the crime investigation agency (CIA) staff, the credit of solving this case is due also to Punjab Human Rights Organisation (PHRO) and its secretary, Sarabjit Singh Verka, who brought out the conspiracy angle.
Superintendent of police (D) Sidhu told reporters here on Sunday that on January 22, Jasbir Kaur of Rana Garden Colony in the Maqboolpura area had reported the death of her husband, Surinder Singh, and co-passenger Sahib Singh of Mahal village in the car fire near Manawala. The police initiated legal proceedings and closed the case.
Later, it came out to be a double murder to claim insurance money in the name of Surinder Singh and Sahib Singh. Police claim to have found Surinder's family and relatives to be co-conspirators.

"The two labourers were kidnapped and forced to drink liquor before being strangulated and taken to Manawala to be set ablaze with the car," said the SP, adding that in the murder, Surinder had a major role.

Surinder Singh, who had many insurance policies, had also helped Sahib Singh get similar deals from many companies, although he belonged to a poor family and had never been insured before. Surinder is reported to be notorious for fake identities.

The CIA found that he had paid premium on behalf of Sahib Singh and got him insured for `1 crore. The signatures of Sunanda, Sahib's wife, on the nomination forms, policy papers and claims were fake.

Surinder had insured self for 2 crore and also bought accident cover for his Chevrolet Beat car (which he had plotted to burn). When Surinder and Sahib disappeared, their wives filed insurance claims. Surinder's wife, Jasbir Kaur, and their elder son, Sulkhan Singh, and his wife, Sarabjit Kaur, are among the accused.

Surinder's two other sons, Mukhtiar Singh and Sukhwant Singh, who are in Australia; and some their friends Nishan Singh, Avtar Singh, and Ranjit Singh are also said to be involved.

Accused Sahib Singh, Jasbir Singh, Sulkhan Singh, and Sarabjit Kaur are under arrest. The police are yet to identify the two labourers killed in the incident.

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Claim Settlement

Significance of claims

- Delivery of promise
- Test of underwriting precautions, add-on covers
- Shows competence to service the insurance portfolio
- Trust of client in insurer
- Faith in the intermediary
- Can strengthen or demolish long term relationship with the insurer and intermediary
- Publicity through word of mouth

Major stages in life cycle of claim

- Intimation of claim
- Deputation of surveyor
- On-site verifications
- Go-ahead of repairs/demolition/removal
- Letter of requirements from surveyor

- Compliance for procession on account payment
- Submission of documents
- Reinstatement/repairs, its verification by surveyor
- Sharing of assessment by surveyor
- Submission of survey to insurance co.
- Processing by insurance co.
- Approval , discharge , NOC , subrogation , payment

Documentation for fire claim

General(list is not exhaustive)

- A copy of the written intimation letter to insurer
- A copy of the insurance policies involved
- Profile of the company, nature of business, turnover, products, locations
- A brief write up about the affected premises
- Balance sheet of the company
- Occurrence report & statement of eye witnesses
- Details of damaged and undamaged items
- Itemwise claim within 15 days from date of loss
- Copy of the intimation of loss to police, fire brigade, factories inspector
- Fire brigade report
- FIR issued by the police
- News paper clips
- Claim form and claim bill
- Photographs, video, CCTV footage
- Copy of NOC from fire brigade department

Characteristics of Fire Insurance

1. Fire insurance is a contract of indemnity. The insurer is liable only to the extent of the actual loss suffered. If there is no loss there is no liability even if there is a fire.

2. Fire insurance is a contract of good faith. The policy-holder and the insurer must disclose all the material facts known to them.

3. Fire insurance policy is usually made for one year only. The policy can be renewed according to the terms of the policy.

4. The contract of insurance is embodied in a policy called the fire policy. Such policies usually cover specific properties for a specified period.

5. Insurable Interest: A fire policy is valid only if the policy-holder has an insurable interest in the property covered. Such interest must exist at the time when the loss occurs. In English cases it has been held that the following persons have insurable interest for the purposes of fire insurance-owner; tenants, bailees, including carriers; mortgages and charge-holders.

6. In case of several policies for the same property, each insurer is entitled to contribution from the others. After a loss occurs and payment is made, the insurer is subrogated to the rights and interests of the policy-holder. An insurer can reinsure a part of the risk.

7. Fire policies cover losses caused proximately by fire. The term loss by fire is interpreted liberally. Example: A women hid her jewellery under the coal in her fireplace. Later on she forgot about the jewellery and lit the fire. The jewellery was damaged. Held, she could recover under the fire policy.

8. Nothing can be recovered under a fire policy if the fire is caused by a deliberate act of policy-holder. In such cases the policy-holder is liable to criminal prosecution.

9. Fire policies generally contain a condition that the insurer will not be liable if the fire is caused by riot, civil disturbances, war and explosions. In the absence of any specific expectation the insurer is liable for all losses caused by fire, whatever may be the causes of the fire.

10.Assignment: According to English law a policy of fire insurance can be assigned only with the consent of the insurer. In India such consent is not necessary and the policy can be assigned as a chose-in-action under the Transfer of Property Act. The insurer is bound when notice is given to him. But the assignee cannot be recovering damages unless he has an insurable interest in the property at the time when the loss occurs. A stranger cannot sue on a fire policy.

11. Payment of Claims: Fire policies generally contain a clause providing that upon the occurrence of fire the insurer shall be immediately notified so that the insurer can take steps to salvage the remainder of the property and can also determine the extent of the loss. Insurance companies keep experts on their staff of value the loss. If in a policy there is an international over valuation of the property by the policy-holder, the policy may be avoided on the ground of fraud.

Importance Of Fire Insurance

Fire insurance is the type of insurance coverage, in which an individual pays some sum of money to the company, in exchange to receive advantages for the fireplace losses. Fire insurance provides the security for home, share, home furniture, enterprise buildings, etc,. Fireplace insurance provides the price of alternative of properties and assets, which gets broken due to the fireplace incident.

Fire insurance provides the advantages for the homeowner in these ways

- It provides the price of damage for the building
- It provides the rc, if any home furnishings are damaged due to the fireplace incident, like plywood home furniture, carpets, clothes.
- It provides alternative or maintenance price for the electronic items, which is broken due to fireplace, like television, computer, air coolers.

Fire insurance provides advantages to the enterprise in the following way

- It covers the price of share broken due to the fire
- It provides the loss of life advantages to employee, in case of loss of life occurred due to the fireplace incident.
- It provides the alternative or maintenance price for the machines, if they get broken due to fireplace incident.
- It provides the medical expenses for the employees, if they get injured due to the fireplace incident.

Importance of Fire Insurance for Businesses

No type of risk is more dangerous than fireplace and arson that intends enterprise building in the Business. This is why high-risk enterprise qualities like dining establishments are recommended to take additional fireplace insurance to make sure they are well ready for such harmful activities. Basically, fireplace insurance can provide complete take care of against fireplace and smoking damage to the property and its items. Since the actual features and price of take care of will differ on the level of take care of you used for, it is important to make sure that you are effectively protected. Thus, conditions and insurance plan information must be tested before carrying out to a replace insurance coverage. Furthermore, there are other accessories that go with fireplace insurance that you have to involve in your take care of. Although they will price you a little bit more on charges, these will confirm to be important in the future. Such involve legal take care of, personal belongings, and old for new take care of. Just take be aware of administration accepted fireplace protection products that you can use, which will help bring down the price of your fireplace expenses.