Fire Insurance

Introduction:

A fire insurance is a contract under which the insurer in return for a consideration (premium) agrees to indemnify the insured for the financial loss which the latter may suffer due to destruction of or damage to property or goods, caused by fire, during a specified period. The contract specifies **the maximum amount**, agreed to by the parties at the time of the contract, which the insured can claim in case of loss. This amount is not, however , the measure of the loss. The loss can be ascertained only after the fire has occurred. The insurer is liable to make good the actual amount of loss not exceeding the maximum amount fixed under the policy. A fire insurance policy cannot be assigned without the permission of the insurer because the insured must have insurable interest in the property at the time of contract as well as at the time of loss.

The insurable interest in goods may arise out on account of (i) ownership, (ii) possession, or (iii) contract. A person with a limited interest in a property or goods may insure them to cover not only his own interest but also the interest of others in them.

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.♣

Fire means : In the fire insurance policy, 'Fire' means the production of light and heat by combustion or burning. Thus, fire, must result from actual ignition and the resulting loss must be proximately caused by such ignition. The phrase 'loss or damage by fire' also includes the loss or damage caused by efforts to extinguish fire.

The types of losses covered by fire insurance are:- 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.

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.

A claim for loss by fire must satisfy the following conditions:-

The loss must be caused by actual fire or ignition and not just by high♣ temperature. The proximate cause of loss should be fire.♣ The loss or damage must relate to subject matter of policy.♣ The ignition must be either of the goods or of the premises where goods are kept.♣ The fire must be accidental, not intentional. If the fire is caused through a♣ malicious or deliberate act of the insured or his agents, the insurer will not be liable for the loss.

Types 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.