## 2.0 FIRE INSURANCE

Though it is popularly referred to as ’Fire’ Policy only, **’Standard Fire and Special Peril Policy’ (SFSP)** is actually a package of coverage against a group of associated and similar perils, including fire peril. In addition, protection against one or more of fourteen other covers/perils are also offered in exchange of extra premium. A few basic perils (covered under the basic package) can also be excluded from coverage and corresponding discount is given in the premium.

### 2.0.1 BASIC PRINCIPLES

The following basic principles are applicable for Fire Insurance Contracts (*Refer to section 1.0.1*) :

- Insurable Interest
- Indemnity
- Utmost Good Faith
- Subrogation
- Proximate Cause
- Contribution

### 2.0.2 SUBJECT MATTER

Almost any property having measurable intrinsic financial value can be covered under SFSP Policy. For example:

i. Houses,
ii. Factories,
iii. Godowns,
iv. Shops
v. Furniture and Fixture,
vi. Plant and Machinery,
vii. Raw Material etc.

It is not permissible to issue a policy covering only certain portions of a building/property under the same ownership.

**Did you know….**

*Plinth and foundations or only the foundation of a building may be excluded.*

### 2.0.3 PERILS COVERED

The basic SFSP coverage includes twelve specified perils, which are tabulated below:

| | Peril | Excluding loss/damage due to |
|---|---|---|
| 1 | Fire | Own fermentation, natural heating, spontaneous combustion, undergoing heating/ |

| | | |
|---|---|---|
| | | drying, burning by Public Authority |
| 2 | Lightning | |
| 3 | Explosion/ Implosion | Own explosion/implosion of non-domestic boilers, etc. or centrifugal forces[1] |
| 4 | Aircraft Damage | Pressure waves. |
| 5 | Riot, Strike, Malicious Damage[2] | Cessation of work, confiscation, commandeering, requisition or destruction by lawful Authority, dispossession resulting from unlawful occupation, Burglary, housebreaking, theft, larceny etc. |
| 6 | Storm, Cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood & Inundation[2] | Earthquake, Volcanic eruption or other convulsions of nature. |
| 7 | Impact Damage | Impact by Vehicle/Animal owned by Insured/ occupier of premises or used by their employee in course of employment |
| 8 | Subsidence and Land slide and Rock slide | Normal cracking, settlement, bedding, coastal erosion, faulty design, workmanship, material, demolition, construction, alterations or repair of structure |
| 9 | Bursting and/or over-flowing of Water Tanks, Apparatus and Pipes | |
| 10 | Missile Testing Operations | |
| 11 | Leakage from Automatic Sprinkler Installations | Repair/Alteration/Removal/Extension of Building/Sprinkler System or known construction defects |
| 12 | Bush Fire | Forest Fire |

*Expenses incurred on (i) Architects, Surveyors and Consulting Engineer's Fees (upto 3% of Claim Amount) and (ii) Removal of Debris (upto 1% of Claim Amount) is covered without extra premium.*

*(1) Forces resulting from circular movement of a body ($F = mv^2/r$)*
*(2) These groups can be opted out and a discount can be given*

## 2.0.4 'ADD-ON' COVERS

In addition to the Basic Covers as per table (*sec. 2.0.3*), one or more of the following additional coverage (known as 'Add-on' covers) are available at additional premium[3] :

i. Architects, Surveyors and Consulting Engineers Fees (in excess of 3% of claim amount)

ii. Removal of Debris (in excess of 1% of claim amount)

iii. Deterioration of Stocks in Cold Storage premises due to
   a. accidental power failure consequent to damage at the premises of Power Station due to an insured peril
   b. change in temperature arising out of loss or damage to the cold storage machinery in the Insured's premises due to operation of insured peril

iv. Forest Fire

v. Impact Damage due to Insured's own Rail/Road Vehicles, Fork- lifts, Cranes Stackers etc. and articles dropped therefrom

vi. Spontaneous Combustion

vii. Omission to Insure additions, alterations or extensions (upto 5 %)

viii. Earthquake (Fire and Shock)

ix. Spoilage Material Damage Cover

x. Leakage And Contamination Cover

xi. Temporary Removal of Stocks

xii. Loss of Rent

xiii. Additional Expenses of Rent For An Alternative Accommodation

xiv Start up Expenses

*For 'Spontaneous Combustion' rating, Materials have been divided into 4 groups —Category IV being most hazardous and Category I being least hazardous. For 'Earthquake' rating, the country has been divided into four Zones —Zone I being most earthquake prone and Zone IV being least prone. However, dwelling, offices, hotels, shops etc will attract Earthquake rates of Zone IV irrespective of their location.*

**Did you know….**

*Coal, Charcoal, Hey, Molasses are examples of materials which are highly prone to Spontaneous Combustion.*

*(3) For Rates and Sum Insured Details of add-on covers, please refer to AIFT.*

## 2.0.5 POLICY PERIOD

Normally, fire polices are 'Annual' Policies. However, take a note of the following important points

i. For 'Dwellings', Long-Term Policies (i.e. for more than 12 months) can be issued to **flat/house owners only**. In such cases, minimum policy period is 3 years. For long-term Policies, **EITHER** full premium for entire period can be charged and S.I. would increase every year by 10% (*cf.* Cumulative Bonus of Mediclaim Policy) [Method A] **OR** long-term discount (max 50%) can be granted with fixed S.I. [Method B]

*For 'Long-term' Policies, neither refund would be allowed for mid-term cancellation nor mid-term inclusion of additional perils would be permitted. However, S.I. can be increased midway by paying extra premium on pro-rata basis*

ii. Fire Policies for less than 12 months may be issued on Short-Period Scale, which cannot be extended.[4]

iii. Inclusion of 'STFI' perils during the currency of a policy is discouraged. But in case it is to be done, the corresponding premium for entire property has to be paid by **cash** or **draft** only. The effect of such included cover will come into force **15 days** after receiving the premium for such newly included perils.

## 2.0.6 SUM INSURED

The Sum Insured under SFSP Policy is generally the **Market Value** of the property i.e. New

Replacement value less depreciation. However, for properties other than stock, Policy can be issued on **New Replacement Value** Basis by attaching **Re-Instatement Value Clause.**

*(4) Declaration policies cannot be issued on short-period basis*

The Sum Insured for Plant and Machinery should include Installation Cost also.

While, increase in Sum Insured can be effected during the currency of a Fire Policy by charging premium at **Pro-Rata rate**, for reduction in SI, **Short-Period** scale is to be applied.

**Escalation** (maximum 25 % of SI) is permitted for property and 50% of premium payable on escalated SI is chargeable at inception of Policy. Escalation facility is not available for Policies covering Stock.

There are certain objects whose 'value' cannot be ascertained in a simple manner e.g. Curios, Works of Art, Manuscripts, Obsolete items etc. For these items, **Valued Policy** can be issued after valuation by a proper valuer.

Following a claim, the Sum Insured in Fire Policy stands reduced by the claim amount for balance period. The **S.I. is to be reinstated** by charging premium on claim amount on pro-rata basis with effect from the date of loss.

*For inadequate Sum Insure,. underinsurance is applicable to Fire Policy at the time of settlement of Claims*.

## 2.0.7 RATING

The rate of premium applicable for a Fire Policy primarily depends on the nature of subject matter. Various subject matters to be covered under fire Policy have been grouped into the following categories for rating purpose :

i. Dwelling, Offices, Hotels, Shops etc. (Section III of AIFT)

ii. Industrial/Manufacturing Risks (Section IV of AIFT)

iii. Utilities located outside the compounds of industrial / manufacturing Risks (Section V of AIFT)

iv. Storage Risk outside the compounds of industrial / manufacturing Risks (Section VI of AIFT)

v. Tank Farms/Gas Holders outside the compounds of industrial /manufacturing Risks (Section VII of AIFT)

Elaborate discussion on rates of each item is beyond the scope of this book. Interested readers may refer to AIFT for details. However, the following points are important in respect of Fire Policy rating.

**A. General :**

- "Kutcha" construction (wall or roof of wooden plank/thatched leaves etc) will attract 'Loading'. (However, temporary sheds erected for monsoon protection are permitted without loading)

**B. For Dwelling, Offices, Hotels, Shops etc. (Section III of AIFT)**

- In a few shops, seasonal storage of crackers is done (say during *New Year*). Content Rates are to be loaded by 10 % in such cases.
- Presence of Smaller quantity of hazardous goods (up to 5% of S.I.) may be ignored while rating.

**C. For Industrial/Manufacturing Risks (Section IV of AIFT)**

- Where **two or more products** are manufactured in the same block, highest rate is to be charged overall. But if **two or more factories** are situated in the same compound or independent products are manufactured in the same compound the manufacturing blocks shall be rated 'per se' if located detached.
- Dwelling Houses (such as staff quarters) located inside the factory compound may be rated 'per se'**.**
- A Factory would be treated as **'Silent Risk'**, if there is no manufacturing/storage activity for at least 30 consecutive days[5].

**D. For Storage Risk (Section VI of AIFT)**

- Presence of small quantity of hazardous goods (upto 5% of S.I.) and goods in open (upto 2 % of S.I.) will not affect rating adversely.
- The degrees of hazard for flammable liquids are decided by their **'Flash Points'**. The Category of a flammable liquid depends on whether the Flash Point is (i) less than $32^0$C (most hazardous), (ii) between $32^0$C and $65^0$C or (iii) above $65^0$C

| |
|---|
| **<u>Did you know….</u>**<br><br>*Waste of any material is more hazardous than the material itself.* |

*(5) Closure following a loss will not make a Risk eligible for rating as 'Silent' Risk. However, if materials are stored in a silent risk, the higher of storage rate and silent risk rate will be applicable*

| |
|---|
| *Minimum Premium for Fire Policy rateable under Section III or "Tiny Sector Industries" under Section IV is Rs. 50/- . For all other Risks, the minimum premium is Rs. 100/-.* |

## 2.0.8 EXCLUSIONS

i. War, invasion, war like operations (whether war be declared or not), civil war, mutiny, civil commotion etc.

ii. Excess :

   a. The first 5% of each claim (Minimum Rs.10,000[6]) in losses arising out of "Act of God perils"

   b. Rs.10,000[6] in other losses

iii. Ionization, radiation, radioactivity or other similar causes.

iv. Pollution or contamination is excluded. (But pollution/ contamination caused by insured perils are covered)

v. Manuscripts, drawings, securities, stamps, coins or currency notes, cheques, books of accounts, computer systems records, explosives etc.

vi. Bullion or unset precious stones, any curios or works of art for an amount exceeding Rs. 10,000/-

vii. Pure Electrical Fire i.e. Losses to any electrical machine etc. arising from over-running, excessive pressure, short circuiting, leakage etc. (But this exclusion applies only to the particular machine. Other surrounding property damaged by such fire remains covered)

viii. Loss to property insured if shifted anywhere else. (However temporary removal of machinery/ equipment for repairs, cleaning, renovation etc is allowed upto 60 days).

ix. Theft during or after loss by insured peril.

x. Spoilage of material due to change of temperature or cessation of work.

*(6) Minimum excess is higher if Sum Insured is above 10 crore*

xi. Consequential Losses

xii. Earthquake[7]

xiii. Terrorism Damage[7]

xiv. Architect’s fees beyond 3 % of Claim Amount and Cost of removal of debris beyond 1 % of Claim Amount[7]

## 2.0.9 GENERAL REGULATIONS

i. Misrepresentation, non-discloser of material facts by the insured makes the policy voidable

ii. Cessation of cover on fall or displacement (other than by an insured peril) of insured property on expiry of 7 days

iii. Cessation of cover on material alteration, if unoccupied for more than 30 days or transfer of insurable interest

iv. Loss covered under any marine policy is not payable

v. Cancellation

vi. Duties of the Insured in the event of a loss

vii. Rights of the Insurer in the event of a claim

viii. Fraudulent means by Insured forfeits all benefits

ix. Insurer’s rights to reinstate or replace the property in case of a claim

x. Average clause i.e. Underinsurance

xi. Contribution

xii. Subrogation

xiii. Arbitration

xiv. All communications by insured to be in writing

xv. Reinstatement of Sum Insured after a claim

*(7) These losses can be covered by paying extra premium*

## 2.0.10 DECLARATION POLICY

In a situation where the quantity of stock at a location may fluctuate frequently, Policy on 'Declaration' basis may be issued. The following are the features of 'Declaration' Policy:

- Minimum S.I. is Rs. 1 crore in total and Rs. 25 lakh at any one location.
- Full premium will be collected in advance based on Sum Insured as declared by Insured. No short-period policies can be issued.
- Monthly Declaration will be received (by last day of the following month) from insured indicating either **Average of values** on each day or **highest value** on any day during the month[8]. Declaration cannot cross initial S.I. declared by Insured.
- Refund of premium will be made based on recalculation on average of declared value.
- Maximum refund is 50 %
- Only Stock can be covered. Coverage will be on Market Value Basis.

**Did you know….**

*(i) Stocks-in-process and (ii) Stocks at Railway Siding cannot be covered under Declaration Policy*

## 2.0.11 FLOATER POLICY

When Stocks are spread in various locations (e.g. a Company's godowns in various locations), 'Floater' Policies can be issued for a single total Sum Insured. Note the following characteristics of Floater Policy :

- Applicable rate is highest rate of various stocks.
- 10 % loading (called 'Floater Extra') is to be applied.
- Class of Construction is to be ignored.
- In case stocks are in same compound, no 'floater extra' is charged.
- In case one/more locations comprise process blocks, the higher of process block rate and stock rate will apply.

*(8) In case of non-submission of declaration, S.I. will be taken for that month.*

## 2.0.12 FLOATER-DECLARATION POLICY

It is also possible to issue 'Floater-Declaration' Policy, to avail of the features of both of them. It may be pointed out that, in such case, the minimum Sum Insured is **Rs. 2 crore** and maximum refund after adjustment is **20 %** of premium.

*For 'Floater' or 'Declaration' or 'Floater-Declaration' Policy, the relevant Clause(s)[Section 2.0.14] is/are to be attached with the Policy.*

## 2.0.13 DISCOUNTS

The following common discounts may be allowed in Fire Policy:

- For opting additional Voluntary Excess.
- Fire Fighting Appliances like Hand Appliances, Trailer Pumps, Hydrants, Sprinklers, Fixed Water-spray system etc. (discount rates vary depending upon arrangement from 2.5 % to 10 %).
- Favourable Claim Experience Discount.[9(next page)]
- For excluding perils like STFI &/or RSMD

## 2.0.14 CLAUSES

There are various standard clauses available under Fire Policy. The relevant clauses as required need to be attached to a Policy. The following are the details of various clauses:

| | **Clause** | **When to be used** |
|---|---|---|
| **A** | Agreed Bank Clause | Where a Bank/Financial Institution has interest |
| **B** | Contract Price Insurance Clause | When coverage is for only Imported Goods which are sold under a contract |
| **C** | Designation of Property Clause | To agree to the designation/nomenclature of item as per insured's records |
| **D** | Re-instatement Value Clause | To issue Policy on New Replacement Value without depreciation. [10] |
| **E** | Local Authority Clause | To cover reinstatement cost necessary to comply Local Authority's requirements.[11] |
| **F** | Escalation Clause | When escalation of Sum Insured has been opted by Insured (Refer to section 2.0.6) |
| **G** | Architect, Surveyor, etc Fees Clause | When additional cover (more than 3%) for this loss is required [refer to Sec 2.0.4 (i)] |
| **H** | Removal of Debris | When additional cost for removal of debris (> 1%) is required [refer to sec. 2.0.4 (ii)] |
| **I** | Floater Clause | When 'Floater' Policy is issued |
| **J** | Declaration Clause | When 'Declaration' Policy is issued |
| **K** | Voluntary Deductible Clause | When Insured opts for higher Voluntary Deductible and gets discount. |

## 2.0.15 ALL INDIA FIRE TARIFF

All India Fire Tariff has eight Sections structured as follows:

**Section I -** General Rules and regulations

**Section II -** Standard Fire and Special Peril Policy

**Section III -** Dwelling, Offices, Shops etc.

**Section IV -** Industrial/Manufacturing Risks

**Section V -** Utilities outside industrial Risks

**Section VI -** Storage Risks (Godowns etc.)

**Section VII -** Tank farms/Gas Holders outside industrial Risks

**Section VIII -** Add-on Covers

*(9) For Risks with higher Sum Insured only*
*(10) Can be issued only for building, F/F/F etc and **NOT for stocks***
*(11) Can be issued only in Policies with Re-instatement value clause.*

**LAST BUT NOT THE LEAST**

- A loss would be said to have occurred from Fire when there is ignition accompanied with heat &/or flame and some kind of chemical reaction (generally oxidation with atmospheric Oxygen).
- Loss by smoke, sparks consequent on ignition is covered.
- Water Damage while fire-fighting and re-fuelling cost of Fire Extinguishing Appliances are payable.
- Following a claim, the Sum Insured stands reduced by the claim amount for balance period. The S.I. is reinstated by charging premium on claim amount on pro-rata basis with effect from date of loss.
- If a Policy is cancelled on Insured’s request, premium at short-period rate would be retained. If Insurer cancels a policy, pro-rata premium would be retained.
- Excess is applied on “per event” basis.

## 2.0.16 TEST YOURSELF

1. Loading for ’Earthquake’ cover for a Residential Building
   a. Depends on Earthquake zone where the house is located
   b. Same all over the country
   c. Covered automatically in SFSP
   d. Half of Industrial loading

2. Waste of Category-II Material will fall under
   a. Category-I
   b. Category-II

c. Category-III
d. Depends on material

3. Maximum Escalation available under fire policy is
   a. 25 %
   b. 50 %
   c. 75 %
   d. 100 %

4. Minimum Sum Insured for a Floater Declaration Policy is
   a. Rs. 1 crore
   b. Rs. 2 crore
   c. Rs. 10 crore
   d. None of the above

5. An electrical motor has developed internal short-circuit which resulted in fire. The factory was completely gutted. In such a situation
   a. The claim is not payable since it is a pure electrical fire
   b. Everything is payable
   c. Everything other than the specific motor is payable
   d. Claim payable if 'short-circuit' extension was opted

## 2.0.17 TEST YOURSELF ANSWERS

1. Refer to the 'Note' under Section 2.0.4. For earthquake rating the country is divided into 4 zones with different rates for earthquake cover for industrial risks. But as a special case, for risks rateable under section III of AIFT (i.e. Dwellings, Offices, Shops etc), only Zone-IV rate is applied irrespective of their actual location. **Correct answer is (b)**
2. Refer to Sec. 2.0.7 "Did you know…". Wastes of any material is more combustible than the actual material itself. **Correct answer is (c)**
3. **Correct answer is (a)**
4. **Correct answer is (b)**
5. Refer to Exclusion (vii) of Sec. 2.0.8. **Correct answer is (c)** [There is no such extension called 'short-circuit' extension]

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*Contributed by: Sri U Bhattacharya, Manager, NCIL, Narendrapur*

## 2.1.0 LOSS OF PROFIT

The material damage caused by Fire and allied perils can be compensated by Standard Fire Policy. But that may not be the only loss suffered by an insured. If a shop or a factory is destroyed by Fire, it is very likely to take long time to restore the property even if complete financial compensation is available through a Fire Policy. During this period, his business remains disrupted and the profit that he would have earned during this period could not be earned by him. Therefore, there is a need for a separate policy to take care of such consequential loss. This benefit is offered by a separate **Loss of Profit** Policy which can be an extension of fire policy, or engineering policy or a project insurance.

- This extension to a Fire Policy is known as FLOP (Fire Loss of Profit).
- This extension to an Engineering Policy is known as MLOP (Machinery Loss of Profit).
- This extension to a Project Policy is known as ALOP (Advance Loss of Profit).

Loss of Profit Policy can also be termed as Consequential Loss Policy or Business Interruption Policy.

## 2.1.1 SCOPE OF POLICY COVER

- Loss of earning (Net Profit) Standing Charges
- Increased cost of working

Standing Charges include all fixed expenses such as rent, salary, electricity expenses, audit expenses etc. which have to be incurred by the insured irrespective of whether the business activities interrupted due to material damage or loss or destruction brought by the operation of insured perils. The indemnification under this policy is admissible only when insurer admits the claim for material loss or damage or destruction.

No consequential insurance covers for variable expenses.

**The Consequential Loss Policy Covers:**

**Net Profit** : This policy is designed to take care of loss of net profit, which is differently meant by this policy unlike the net profit derived from trading and P & L account. Such loss of profit should result from the cause of insured peril covered under Standard Fire policy and that cause should have brought the interruption of business.

**Standing Charges/ Fixed Charges** : In spite of the stoppage of the business, the fixed remuneration and other standardized fixed expenses have to be incurred by the insured. Such expenses have to be incurred irrespective whether the business is carried on or not due to the occurrence of the insured peril.

**Increased Alternate Cost of Working: To pay the additional expenditure incurred by the Insured to maintain the normal business activity during the period in which the business is affected**

**Turnover** : Modern BI policies are based on the turnover of the business. Turnover is defined as the money paid or payable to the insured for goods sold and delivered and for services rendered in the course of the business at the premises. It consists of Variable charges, standing charges and net profit.

**Gross Profit**: It may be defined that it is the amount by which the sum of the turnover and the values of the closing stock shall exceed the value of the opening stock and specified working expenses.

## 2.1.2 CALCULATION OF GROSS PROFIT

**Additional Method:** In this method, insured adds standing charges to the net profit before taxation and excluding capital receipt as per the Profit and Loss Account of the Company. The original definition of gross profit was net profit plus insured standing charges. All 'non-business' items were taken out [such as rent and upkeep of let-out portions, stock market gains and losses etc]. Net trading profit was the surplus left after taking from the turnover of the business insured all the costs of making it, from purchases of raw material to the cost of delivery by the insured's vehicles or by post etc.

**Difference Basis**: Under this method, gross profit is arrived at as the difference between turnover and variable charge. The ***'Difference'*** method starts with the accounts but uses them the other way round. Basically, it lists 'specified working expenses' such as purchases these are the previously mentioned variable charges which vary directly in proportion to the turnover. Obviously, if your turnover is down you do not need to buy so much. Once you have deleted the variable charges you are left with the standing charges and net profit or [to put it another way] the gross profit.

**Examples of Standing Charges**

- Salaries to permanent staff
- Contribution to PF, FPF, Superannuation, Perquisites, ESI, etc. Rent, Rates,
- Taxes, Duties and License fees'
- Director's fees, remuneration
- Total audit fees and professional charges
- Conveyance, Travelling expenses and other office expenses, Interest on loan, debentures, bank charges, guarantee, commission Dividend on preference shares
- Depreciation on various assets
- Miscellaneous standing charges
- Not exceeding 5% of the total listed insured standing charges.

**Examples of Increased Cost of Working**

- Rent for temporary premises
- Payment of overtime
- Hire of machinery etc.

## 2.1.3 POLICY PERIOD

**Period of Insurance:** Period of insurance of LOP policy is usually in consonance with material damage policy. It runs and expires almost simultaneously.

**Period of Indemnity:** The indemnity period commences with the date of damage and lasts till such time as the business is restored to its pre-damaged level or the period stipulated in the policy, whichever comes first. A consequential loss insurance policy insures earnings of the business lost during the indemnity period.

## 2.1.4 SUM INSURED

The Sum Insured is based on the gross profit of the business. The sum insured is extracted from the previous year's account. If the indemnity period is 18 months, the amount is increased by 50%.

Even if the business does not expand in terms of goods produced the expense and income levels do expand in terms of money, roughly in conjunction with the general inflation rate. Therefore, a sum to be insured needs to be drawn from the previous year's accounts and an upward adjustment is done in such a way that takes care of any future influence of inflationary factors.

The sum insured should be at least one year's gross profit, even if indemnity period is less than 12 months. If indemnity period is more than 12 months, the sum insured will be a multiple (i.e. proportionate) of the annual G.P. Operating profit and insured costs need to be estimated with the help of data on the current and projected business performance.

**Additional Items that can be incorporated as part of S.I.**

1. **Wages:** Two methods in which wages can be included.
   - Pro-rata Basis
   - Dual Basis

   There are two main advantages to the Dual Basis cover. They are
   - Carryover of saving
   - Option to Consolidate
2. **Insurance of lay off and/or retrenchment compensation**
3. **Auditors fees**

## 2.1.5 RATING

Average (weighted) rate of the contents of the process blocks as per fire tariff.

+ 25% LOP loading.

+25% loading if the plant is having continuous process.

For indemnity period of more than 12 months Sum insured is to be increased proportionately.
Sum Insured: NP + SC = GP

The basic rate for consequential loss resulting from destruction or of damage to the property by the perils covered under the standard fire & special perils policy shall not be less than 1.25 times the full average of the items covering the contents of the process blocks of the premises occupied by the insured.

- In calculating the basic rate, the contents of any storage/ utility blocks (even if they are communicating with the process blocks) should not be taken into consideration.
- For other business premises, where no manufacturing process is carried on, the basis rate shall be 1.25 times the average rate of the contents of the whole premises.
- The average fire rate (as basic rate) shall be the percentage which is the aggregate net premium in respect of the whole annual rate of the standard fire material damage policy of contents of the process blocks and/or the whole premises as applicable under the item 1 & 2 above bears to aggregate sum insured on such contents.

- The basis rate should not be altered when the factory becomes silent during the policy period.
- Pilot plant and all the laboratories shall be considered as 'process blocks' for rating.
- Percentage of the basic rate is applicable on the sum to be insured (100% of annual gross profit or above depending on the indemnity period opted by the insured) for all the perils normally covered under the material damage cover.

**For Additional (Extension) Covers:**

- Wages (other than those covered as part of gross profit) on dual basis (whole wages for initial 4 weeks & for a lesser percentage for the remaining period of not less than total 12 months).
- Wages (pro-rata basis) —for a selected period as multiple of basic rate.
- Lay-off compensation &/or retrenchment compensation (with /without notice wages liability) - 50% loading on profit rate for each item.
- Auditors' fees (only for the coverage of the fees required to be paid for preparation of papers relating any claim assessment) —separate sum insured to be declared and premium to be charged at 100% of basic rate.

## 2.1.6 TURNOVER

It may be defined as consideration measurable in terms of money received or receivable by the insured for goods sold and delivered and services rendered in the course of the business carried out within his premises. The following do not fall under 'turnover'

- o Any sum receivable for the sale of redundant plant and machinery.
- o Income from any source not insured under the policy. (Example: Rental income from the tenants)
- o Any other business carried out within the insured's premises or goods sold or services rendered but not insured under the policy.

**Standard Turnover:** The Turnover during the period of 12 months immediately before the date of incident, which correspond with the indemnity period. Example -Indemnity period for the restoration of the business disturbed is 01.06.2001 to 30.10.2001 and this period is the period of interruption. The standard turnover for this purpose means the turnover for a period from 1.6.2000 to 30.10.2000.

**Rate of Gross Profit:** The rate of gross profit earned on the turnover during the financial year immediately before the incident. This can be expressed by a formula:

$$\frac{\text{Gross Profit/Turnover x 100}}{\text{Turnover}}$$

However, the estimated gross profit for the period of insurance should be based on the previous years audited accounts but not less than that of the nearest financial year.

**N.B.** Standard turnover, annual turnover and rate of gross profit are subject to adjustment to take care of trend of business and special circumstances affecting the business. For example a workers' strike, a big event (like IPL for sports goods manufacturers) providing extraordinary business opportunity.

**Increase in Cost of Working and Saving:** The insured may have to incur any additional expenditure for the sole purpose of averting or minimizing the reduction in Turnover. But such expenditure should not exceed the sum produced by applying the Rate of Gross Profit to the amount of the reduction thereby avoided.

**Savings:** Any sum saved during the indemnity period in respect of such of these charges payable out of gross profit insured based on the past records, may be used to set off against the standing charges that are constant in nature.

**Annual Turnover:** It is the Turnover during the twelve months immediately preceding the incident. It is not the Turnover taken from the Audited accounts, as the figures shown in the Audited Final accounts must have become outdated. The rate of Gross Profit is applied to the Annual T/O and the proportion of the loss to be borne by the insured is

$$\frac{\text{Sum Insured}}{\text{Rate of Gross Profit} \times \text{Annual T/O}} = \text{Amount payable}$$

**Underinsurance:** The sum insured by this item is less than the sum produced by applying the Rate of Gross Profit on Annual T/O, the amount payable shall be proportionally reduced.

**Excess:** Every claim under the Fire Loss of Profits policy is subject to compulsory deduction as under:

- Other than Petrochemical Risks 7 days Gross Profit
- Petrochemical Risks 14 days Gross Profit

**Accumulated Stock Clause:** If stocks of finished goods which is accumulated is used to maintain the turnover when production is affected adversely, during indemnity period, account is to be taken of this use and turnover figures are adjusted accordingly.

**Wages Insurance:**

- As standing charges
- On separate item on annual basis, Separate item on period basis (pro- rata), Separate item on Dual basis
- Lay off and retrenchment compensation (Add on)

**Add-On:**

- Auditors' fees, Earthquake, Terrorism
- Spontaneous combustion
- Spoilage cover
- Premises in the Insured's own occupation. Suppliers & customers' premises.
- Electricity station, gas works, and water works

## 2.2.1 INDUSTRIAL ALL RISK INSURANCE

**Eligibility:** All Industrial risks including petrochemicals risks irrespective of Sum Insured are now eligible subject to compliance of file & use guidelines by insurers.

**Sections :**

1 **Section I —Material damage and**

2 Section II Business Interruption following Fire and allied perils (FLOP). MLOP cover is also available at option of the Insured under Sec II.

## 2.2.2 SECTION-I (MATERIAL DAMAGE)

**Scope of Cover**

- All Risk Policy
- All types of Accidental Losses other that named exclusions.
- Coverage includes perils covered under standard fire and special peril policy, Act of God perils namely STFI, EQ (Fire & Shock), landslide, rockslide and subsidence.
- Other Special perils viz. (offered free of cost)
  - Spontaneous combustion.
  - Sprinkler leakage.
  - Spoilage material damage. Leakage and contamination. Missile testing operations. Forest fire, subterranean fire.
  - Bursting and over flowing of water apparatus and pipes. Theft/Burglary
  - Perils covered under Machinery Insurance Policy
  - Boiler explosion. EEI.

**Exclusions :**

**Excluded causes:**

- Interruption of the water supply gas electricity or fuel systems or failure of the effluent disposal systems
- Collapse or cracking of buildings.
- Faulty or defective design of materials, inherent vice, wear and tear. Corrosion, rust, shrinkage loss of weight, contamination etc. Larceny.
- Dishonesty, inventory shortage.
- Coastal or river erosion, normal settlement or bedding down of new structures
- Willful negligence, cessation of work, loss of market. War and war group of perils.
- Nuclear group of perils.
- Destruction of the property by order of public authority.

**Excluded Property:**

- Money, cheques, securities of any description, jewelry, works of art, goods held in trust or on commission, computer system records unless specifically covered.
- Vehicle licensed for road use.
- Property in transit outside the premises.
- Property or structures in the course of construction, demolition or erection.
- Land, Pavements, roads, runways etc. unless specifically covered.
- Livestock, growing crops or trees.
- Property damaged as a result of its undergoing any process Property removed to other location for a period exceeding 60 days. Loss payable to the property covered under marine policies. Property more specifically insured under any other policies.

**Compulsory or minimum deductibles :** All material damage claims are subject to compulsory deductibles as under:

- Policies having Sum Insured up to Rs. 100 Cr per location for Property Damage (PD) and Business Interruption (BI) : 5% of claim amount subject to a minimum of Rs. 5 lac

- Policies having Sum Insured above Rs 100 Cr and upto Rs.1500 cr. per location for Property Damage (PD) and Business Interruption (BI) : 5% of claim amount subject to a minimum of Rs.10 lac
- Policies having Sum Insured above Rs 1500 Cr and upto Rs.2500 cr. per location for Property Damage (PD) and Business Interruption (BI) : 5% of claim amount subject to a minimum of Rs. 25 lac
- Policies having Sum Insured above Rs 2500 Cr per location for Property Damage (PD) and Business Interruption (BI) : 5% of claim amount subject to a minimum of Rs. 50 lac
- Mega Risks Policies having Sum Insured above Rs 2500 Cr per location for Property Damage (PD) and Business Interruption (BI) : 5% of claim amount subject to a minimum of Rs. 50 lac

**Voluntary Deductibles:**

Insured may opt for higher deductibles and based upon the various voluntary options, premium is suitably decided.

**Clauses:**

- Agreed Bank clause.
- Architects, surveyors fees clause
- Designation of property clause.
- Escalation clause.
- Omission to insure additions, alterations or extensions clause. Temporary removal of stocks clause**.**

**Sum Insured :**

For building, plant and machinery, furniture, fixtures and fittings on reinstatement value basis. For stock on market value basis.

## 2.2.3 SECTION-II (BUSINESS INTERRUPTION)

- Loss of Gross Profit arising out of interruption of insured’s operation.
- Such an interruption arising out of a loss payable under Material damage section.

**Scope of Cover :**

1. Loss of Gross profits & Increase in cost of working.
2. Loss of Gross Profits arising out of failure of utility services.

**Exclusions :**

1. Insured’s lack of sufficient capital.
2. Any restrictions imposed by any public authority.
3. Loss for causes like cancellation of a lease license or order etc.
4. Damage to boilers, economizers, machinery, electronic installations and data processing equipment.

**NB** : Arising out of the above, MLOP may be included.

**Specifications** : Difference form of specification used.

**Sum Insured** : Estimated gross profit. Extracted from the previous years profit and loss account. Facility of return of premium clause.

**Extension under Section-II :**

Special perils namely STFI and Earthquake.

Business interruption extended to customers and suppliers premises.

**Rating :** As per the procedure adopted in Fire/Engineering portfolio.