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Disclaimer: As per the syllabus pattern of The Insurance Institute of India(III), Mumbai. Students are also advised to cross-check it from the institute update syllabus.

SUGGESTED READING: AVAILABLE AT AMAZON

- MCQ Guide Book for Miscellaneous Insurance by Dr.Rakesh Agarwal

- Fellowship & Associateship Exam (III) IC 78 Miscellaneous Insurance Model Practice Test: (Practice Series Book 1) by P Ansh

CHAPTER 1

PERSONAL ACCIDENT INSURANCE

Chapter Introduction

Accident by definition is "**An unexpected and undesirable event, especially one resulting in damage or harm**". There is only so much we can do to prevent accidents but what we can do is to have a plan to deal with an accident in an efficient manner. One of the most important steps in that direction is to avail of a personal accident policy.

The chapter discusses the basic principles related to personal accident insurance. We look at both personal as well as group accident policies with respect to various parameters like sum insured, coverage offered, terms and conditions etc. The chapter also explores the claims processing of a personal accident policy. Finally we look at the types of personal accident covers offered and social insurance schemes for personal accident policies.

Learning Outcomes

A. Personal accident insurance – Basic principles
B. Group personal accident policies
C. Personal accident insurance - Claims
D. Personal accident covers – Types
E. Personal accident based social insurances

Look at this Scenario

Samit is a sales executive for a local pharmaceutical company with a modest salary. His job involves extensive travelling. The recent increase in the number of road accidents has left him worried. The very thought of death or dismemberment in a serious accident has left him terrified.

How does he address his fears?

i. A personal accident policy is a necessity in today's times in order to ensure a better living.

ii. It is pertinent to note that a significant part of one's insurance need can be addressed through personal accident insurance at a cost which is 2-5% of a traditional endowment type life insurance policy.

iii. Accident insurance is the cheapest and smartest way of filling the insurance gap for Samit who needs insurance and whose salary is modest.

A. Personal accident insurance – Basic principles

Personal accident insurance covers death or disablement to the insured person, arising out of accident. It is a benefit policy. This means that a fixed compensation is paid to the insured for death or disablement arising out of an accident.

The personal accident class of business was governed by tariff till 31/3/1994 after which, the business was brought out of the purview of the tariff. However, the policy forms and underwriting system, used by the companies, though not uniform, follow more or less similar approach with minor variations.

1. Basic principles

a) Utmost good faith

The principle of utmost good faith applies to personal accident policies in the same manner and with the same force as it applies to other classes of insurance. The insured is duty bound to disclose all material facts pertaining to the proposed interest. The details regarding the condition of health of the life proposed are known best to him only and may not be known to or inferred by the insurers even after a detailed scrutiny of the proposal form.

The duty of utmost good faith is all the more important because medical examination of the proposer is rarely required in case of personal accident proposals. The proposer has to solemnly declare that the information given in the proposal form is true to the best of his knowledge.

The principle of utmost good faith applies throughout the policy period. Any kind of alteration in the material facts has to be brought to the notice of the insurers for their approval and decision.

Example

Samit has quit his job as a sales executive of a local pharmaceutical unit and accepted the post of an Asst. Supervisor at the XYZ mining company. This occupational change affects Samit's risk profile significantly. Samit must disclose this information to Delta Insurance which has granted him cover under a personal accident policy.

b) Insurable interest

The following points highlight the general cases where insurable interest is applicable

i. A person is deemed to have an unlimited interest in his own life and as such, this principle does not pose any problem in personal accident insurance policies.

ii. Since a husband has an insurable interest in the life of his wife and vice versa it is in order for a husband to take a personal accident insurance policy on the life of his wife and vice versa.

iii. Insurable interest also arises for a creditor in his debtor's life to the extent of the debt due to the creditor.

iv. The employers are deemed to have an insurable interest in the lives of their employees in so far as they would suffer in a pecuniary sense by the death or disablement of their employees.

Very often, group policies are taken by employers on the lives of their employees, although there is no provision for such benefits in their service conditions, but as a welfare measure. In such cases claims paid to the insured employers, are passed on by them, to the concerned employees or their dependants, as the case may be.

c) Indemnity

The principle of indemnity refers to the dictum of placing the insured in the same pecuniary position as he was prior to the loss. In other words, an insured is not allowed to make profit out of his insurance. Personal accident policies are contracts which are not strictly subject to the principle of indemnity.

This is so because life is invaluable and no amount of money can compensate the death or disablement of a human being. However on practical considerations a measure of indemnity does come into play. The sum insured accorded depends upon the earnings of the insured person through gainful employment.

Example

When policies are issued to employers to reimburse under service conditions, the amounts of compensation paid by them to their employees or their dependents on the disablement or the death of their employees i.e. the insured are indemnified with the exact amount of compensation paid by them.

Thus personal accident policies can be termed as 'benefit policies' rather than 'policies of indemnity'. This means that on the occurrence of the contingent event, a pre-agreed specified sum of money is payable irrespective of the amount of pecuniary loss actually suffered by the insured or dependents, which in any case cannot be measured.

However, a person cannot make undue profit out of this insurance. The sum insured agreed depends upon the gross direct earnings from gainful employment of the insured person. Care should be taken to ensure that only those earnings are considered, which will cease on the death/disablement of the insured person. E.g. 'Rent income' will continue even if the insured person ceases to exist and hence is not to be considered

Although it is difficult to specify the exact amount for which the cover could be granted (since the practice differs with insurers), it may be indicated that the cover is generally granted for, an amount not exceeding six times the annual earnings of the insured. Linking the capital sum insured in this manner to the earnings of the person ensures that the weekly benefits provided to the insured in the event of temporary disablement would not be disproportionate to his weekly earnings.

Medical expenses incurred due to the insured accident can also be covered as an extension to the main policy. However unlike the basic personal accident insurance cover, medical expenses extension is subject to strict principle of indemnity in all circumstances, since this relates to reimbursement of expenses actually incurred.

d) Contribution

Since personal accident policies are not strict contracts of indemnity, the principle of contribution does not apply. Thus if there are more than one policies available on the date of loss, each policy will pay the full benefits under the same.

Hence it should be borne in mind that at the time of inception, one should be clear about the number of policies already held with the proposer to ensure that he does not make undue profits out of insurance. There is a question in the proposal form seeking information about any other existing P.A. policies. A condition may also be incorporated in the policy to ensure that additional policies are not taken without the consent of the insurers.

Note:

i. However the weekly compensation payable as temporary total disablement benefit is limited to a specified amount per week (presently around Rs. 5000/- per week) and hence will attract the principle of contribution.

ii. This limitation is not per policy or per insurance company but on the life of insured, overall.

iii. If policies are issued by different companies and the total sum insured exceeds the sum insured corresponding to limit for weekly compensation, the liability of each company would be proportionate to the respective sum insured.

iv. Likewise, in respect of medical expenses extension too there could arise co-sharing of liability among the insurance policies issued by different companies.

v. This would happen when the expenses incurred are for an amount less than the total cover available.

vi. When the expenses incurred are more each policy will bear to the extent of its own limit of liability.

e) Subrogation

Subrogation like contribution does not apply to contracts which are not of strict indemnity. Thus a person who has been compensated under the personal accident policy can also claim from any entity, against which he has a legal right.

Example

Samit has been injured in a car accident. He can now claim compensation under his personal accident policy. Likewise he can also proceed against the liable vehicle owners as per Motor Vehicle Act.

f) Basic coverage

The policy basically covers 'Death' and 'Disablement' resulting solely and directly from bodily injuries sustained in an accident, caused by external violent and visible means.

The compensation payable is as decided during the inception of the policy for the specified contingencies that are:

- ✓ Death
- ✓ Permanent total disablement
- ✓ Permanent partial disablement
- ✓ Temporary total disablement
- ✓ Medical expenses resulting from accident are reimbursed on an actual basis, if covered as an extension.

2. Analysis of terms

a) Bodily injury

i. The use of this term excludes disease from natural causes, but disease proximately caused by accident, is bodily injury (unless specifically excluded by the policy).

ii. Mental shock, fright or grief, unless causing some physical injury or disease, does not come within the scope of bodily injury, but the modern tendency is towards the inclusion of any disablement caused by shock.

b) Solely and directly

i. The effect of this phrase is to require that the bodily injury shall have been caused solely and directly by an accident.

ii. Also the bodily injury must directly and independently of any other cause result in death or disablement.

Hence if any other cause contributes to the result, the insured event has not occurred.

An accident may set up a disease and result in death, but death may still be the direct result of the accident, namely, where there is no break in the chain of causation.

Example

Case 1: Samit is thrown from his horse while hunting and is so injured that he cannot walk, he lies on the wet ground until he is picked up, he thus catches chill which turns to pneumonia, and dies.

Case 2: Samit breaks a leg and taken to hospital where he contracts an infectious disease from another patient with fatal results.

In case 1, the death is the sole and direct result of the accident. There is no break in the chain of causation.

In case 2, the death is not the sole and direct result of the accident. The infectious disease constitutes a break in the chain of causation.

c) Accident

An accident is an event which is completely unexpected, not intended or designed. It does not include the cumulative result of a series of small incidents.

Certain voluntary acts which result in bodily injury are included, where the insured's act is the result of a chain of events stemming from an accident.

Example

Not an accident

A bent hand resulting from use of a pneumatic drill is not caused by accident.

Accident

Samit is injured whilst jumping from an upper storey of a burning building. This is deemed to have sustained injury in an accident.

Questions often arise whether events like suicide, murder, frostbite, snakebite, drowning etc. can be regarded as accident. Applying the inferences drawn from various case laws, it can be stated that whilst suicide and murder or homicide following grave provocation are not accidents, homicide or murder without provocation, frostbite, snakebite and drowning are accidents.

However, the concept of 'grave provocation' is difficult to prove or deny. Suicide is excluded under the policy. Insurers who cover 'murder' or 'homicide' try to be careful with the wordings, so that disputes at a later stage can be avoided.

d) External, violent and visible means

The cause of accident (the means) must be within the definition as a whole, but the result may not be external. For example, injury may be internal (inside the body). However the result must be death or disablement as specified in the policy.

In other words, the means or cause of accident must be within the definition, but the result or effect need not be external or visible, so long as it is bodily injury.

e) Disablement

When a person is prevented by an accidental bodily injury from engaging in any occupation or business, he is said to be disabled, and his inability to attend to any occupation or business is called disablement.

What is referred to here is the physical inability of the person to attend to occupation / business, and not his earning capacity. A special note may be taken of the fact that, although there may not be any loss of earning capacity, there still can be disablement under the policy.

3. Types of disablement

The following types of disablement are covered under the policy

- ✓ Permanent total disablement
- ✓ Permanent partial disablement
- ✓ Temporary total disablement

Let us look at each of these in some detail

a) Permanent total disablement

Here, disablement is of permanent and irreversible in nature and is absolutely total, in the sense that the insured person is prevented from engaging in gainful employment of any kind. (Example: paralysis)

What constitutes total disablement?

The following points are deemed as equivalent to permanent total disablement.

i. Loss of sight of both eyes
ii. The actual loss by physical separation of the two entire hands or two entire feet or one entire hand and one entire foot
iii. Loss of sight of one eye and such loss of one entire hand / foot

The exact meaning of the phrases ‘loss of sight’ and ‘loss of limbs’ should be understood.

i. The loss of sight has to be total and irrecoverable. Claims are admissible if vision has become so impaired that it is impossible to recognise objects although the difference between darkness and light can be distinguished.

ii. “Loss of Limbs” means loss of hand and/or foot that is physical separation of the hand and/or foot at or above the wrist or ankle. Loss of use of limbs concerned, and not the limbs themselves, is also deemed to be ‘loss of limbs’.

b) Permanent partial disablement

This is similar to permanent total disablement with the difference that, the disablement is not total but is only partial. E.g. The loss of a toe or a finger

The applicable percentage of compensation for various losses is shown in the policy by means of a table. This percentage of capital sum insured will become payable. For permanent partial disablement not specified in the table, doctor’s assessment would be the basis.

For example, the table specifies that for loss of little finger, compensation is 4% of capital sum insured, loss of four fingers 35%, loss of hearing of both ears 75% and so on.

c) Temporary total disablement

As the name implies, this is a disablement which is total (i.e. the insured person is prevented from engaging in any occupation or business) but for a temporary period only. This temporary period may be days, weeks, months or even years.

The position of the person in supervisory role, who can sign business documents, although confined to bed, is not easy to define, but the signing of papers only does not usually invalidate a claim for total disablement. Normally, the policy provides for weekly compensation for TTD, for a maximum number of weeks specified.

Example

Benefit chart

A specimen table of benefits showing the amounts of compensation payable on occurrence of various contingencies is given below for clear understanding. It is assumed that the capital sum insured by the policy is Rs.100000/-.

This amount is selected for the purpose of illustration only. The proposer is free to choose any capital sum insured subject to the same being commensurate with his income through gainful employment and subject to the insurer agreeing to insure him for such amount.

Table 1.1

No.	Contingency	Amount of compensation payable
a)	Death	Rs. 1,00,000 (i.e. 100% of capital sum insured)
b)	Loss of two limbs or both eyes or one limb and one eye.	Rs. 1,00,000 (i.e. 100% of capital sum insured)
c)	Loss of one limb or one eye	Rs. 50,000 (i.e. 50% of capital sum insured)
d)	Permanent total disablement other than the above	100% of capital sum insured
e)	Permanent partial disablement	Percentage as shown in the table in the policy.
f)	Temporary Total disablement	Weekly payment at 1% of the capital sum insured subject to a maximum of 104 weeks. The amount of weekly payment is restricted to an amount decided by each insurer, whatever be the capital sum insured. E.g. Rs 3000 per week or Rs 5000 per week. This limit applies to all policies held by the insured

The benefits (a-e) above are referred to as capital benefits, and benefit (f) as weekly benefit.

Note:

i. It is not necessary that all benefits stated above are to be covered.
ii. On underwriting consideration or at the request of the insured, policies may be issued covering all the above benefits or the benefits (a) to (e), or (a) to (c) or only (a) etc.
iii. Insurers design their policies in with different combinations of the benefits stated above.

4. Additional benefits at no extra premium

Insurers normally give certain additional benefits which can be enumerated as follows.

a) Carriage of dead body

i. Expenses incurred for carriage of dead body of insured (death due to accident only) to place of residence are reimbursed subject to certain limits.

ii. E.g. 2% percent of capital sum insured restricted to a maximum fixed amount of Rs 2500

b) Education fund

i. In the event of death or permanent total disablement of the insured person, the policy provides for education fund for the dependent children, in addition to capital sum insured and is applicable to personal accident individual policy only.

ii. This is a one-time payment.

iii. Compensation provided is as follows:

- ✓ If the insured person has one dependent child below the age of 25 years, 10% of the capital sum insured subject to maximum of a specified amount. E.g. Rs 5000.

- ✓ If the insured person has more than 1 dependent child below 25 years, 10% of the capital sum insured subject to maximum of a specified amount. E.g. Rs 1, 00, 00/-

iv. The benefit is available only on capital sum insured and not on cumulative bonus. If there are existing insurances on the same life then the total compensation payable shall be limited to the maximum amounts specified.

c) Cumulative bonus

Compensation payable for death, loss of limb(s) or sight and permanent total disablement arising out of accidental injuries shall be increased by 5% thereof in respect of each completed year, during which the policy shall have been in force, prior to the occurrence of an accident for which capital sum becomes payable but amount of such increase shall not exceed 50% or the capital sum insured stated in the schedule herein.

This clause shall not in any way alter the annual character of the insurance, nor the right of the company to decline to renew or to cancel this policy. The earned cumulative bonus will not be lost if the policy is renewed within 30 days of its expiry.

d) Provisos

The following provisos bind the personal accident policy. The insurer is not liable for

i. Compensation under more than one of the sub-clauses (a-f of benefit chart above) in respect of the same period of disablement.

Comprehensive policy provides for payment of compensation for several contingencies like death, loss of limbs/eyes, permanent partial disability etc. It may so happen that the insured may initially appear as only partially disabled, but this disablement may later lead to total disablement, loss of limbs / eyes or death.

Without restriction as stated above it may be construed that the insured can claim under several items for the same accident. It is therefore clarified that payment can be only under one item for the same period of disablement.

The item under which clause is to be considered is at the discretion of the insured.

ii. Any payment after a claim under sub clauses (a), (b), (c) or (d) of the policy has been admitted and settled.

Once a claim is settled under one of the sub-clauses referred to above (concerning death or permanent total disablement) the policy becomes inoperative. No further claim can be admitted under the policy.

iii. Any payment in case of more than one claim under the policy by which maximum liability of the company would exceed sum payable under sub-clause (a) (the capital sum insured)

The object of this exclusion is to clarify beyond any doubt that the company’s liability under the policy is limited to the amount of the capital sum insured (plus the cumulative bonus, if applicable).

iv. Payment of weekly compensation until the total amount shall have been ascertained and agreed.

Although, the benefit is known as weekly compensation the payment is generally made in one lump sum after the quantum of liability is agreed. It is felt that periodical part payments may encourage a claimant to malinger.

In genuine hardship cases however ‘on account’ payment is made which is then adjusted against the final payment due. Although it is termed as weekly compensation, normally the disability period is counted in number or days

5. Exclusions

The exclusions commonly found in personal accident policies are as follows

Payment of compensation in respect of death, injury or disablement of the insured:

a) From intentional self-injury, suicide or attempted suicide

b) Whilst under the influence of intoxicating liquor or drugs

c) Whilst engaging in aviation or ballooning, whilst mounting into, dismounting from or travelling in any balloon or aircraft other than as passenger (fare paying or otherwise) in any duly licensed standard type of aircraft anywhere in the world

d) Directly or indirectly caused by venereal diseases or insanity

e) Arising or resulting from the insured committing any breach of law with criminal intent.

f) From service in the armed forces

g) Resulting directly or indirectly from child birth or pregnancy

h) War and kindred peril and nuclear risks.

Notes:

i. Suicide is not an accident. Besides it is an offence under the Indian Penal Code and the insured is not allowed to benefit from his own criminal act. But when the circumstances are such that the evidence is equally consistent with either suicide or accident, then the presumption of law against suicide applies and accident will be presumed.

ii. Claims arising out of liquor or drugs, venereal diseases, breach of law with criminal intent are not payable on grounds of public policy. It is pertinent to note that words **“criminal intent”** are important. Technical breaches of law are not excluded (e.g. traffic offences)

iii. Aviation or ballooning presents abnormal risks. (Cover may be arranged at extra premium on merits of each case).

6. Policy conditions

a) Notice and proof of claims

i. Written notice of claims with full particulars must be give to the company immediately

ii. In case of death, written notice must, unless reasonable cause is shown, be so given before internment or cremation, and in any case, within one calendar month after the death

iii. In the event of loss of sight or amputation of limbs, written notice thereof must be given within one calendar month after such loss of sight or amputation

iv. Proof of claim satisfactory to the company shall be furnished

v. Any medical or other agent of the company shall be allowed to examine the person insured on the occasion of any alleged injury or disablement and as may reasonably be required

vi. In the event of the death, to make a post-mortem examination of the body of the insured

vii. A post-mortem examination report, if necessary, to be furnished within a span of fourteen days after demand in writing

viii. In the event of a loss of sight insured shall undergo at insured's expense such operation or treatment as the company may reasonably deem desirable.

ix. In the case of claim by death or permanent total or permanent partial disablement, all sums payable hereunder shall be only on the delivery of this policy for cancellation and discharge and in the case of a temporary total disablement, only upon termination of such disablement.

x. No sum payable under this policy shall carry interest

xi. No claims is payable if the claim is fraudulent or supported by fraudulent statement/s

b) Material alterations

i. The insured shall give immediate notice to the company of any change in his business or occupation.

ii. The insured shall on tendering any premium of the renewal of this policy give notice in writing to the company of any disease, physical defect or infirmity with which he has become affected since the payment of last preceding premium.

Change of occupation may materially alter the risk and attract a higher rate of premium. Similarly, any disease (e.g. diabetes) or physical infirmity may also alter the risk. The insurers may take appropriate underwriting decisions such as loading of premium, restricted cover etc.

c) Renewal

This policy may be renewed by mutual consent every year and in such event, the renewal premium shall be paid to the company on or before the date of expiry of the policy or of the subsequent renewal thereof. The company shall not, however, be bound to give notice that such renewal premium is due.

d) Cancellation

The company may at any time, by notice in writing, terminate this policy and the company shall return to insured a pro-rata part of the premium. Such notice shall be deemed sufficiently given if posted and addressed to insured and shall be deemed to have been received by insured at the time when the same would be delivered in the ordinary course of post.

The policy may be cancelled at any time by insured by through a notice in writing under a certificate of posting or a Regd. A.D. Such notice shall be deemed to be effective from the date of dispatch of the same by the insured.

Refund of premium at short period scale is made subject to there being no claim under the policy.

e) Assignment

The company shall not be bound to take notice or be affected by any notice of any trust, charge, lien, assignment or other dealing with or relating to this policy but the receipt of insured or his legal personal representatives shall in all cases be an effective discharge to the company.

The company treats the insured as the absolute owner of the policy. Receipt of the insured or his legal personal representatives that is, those with a Succession Certificate, etc granted by a court of law will be an effective discharge to the company.

Although the assignment of the policy is not permissible under the Insurance Act, these policies can be assigned under the Transfer of Property Act. It should be remembered that when these policies are assigned, it is only the policy amount that is assigned and not the subject matter of the policy.

In other words, the assignment involves a new creditor for the insurers and not a new insured. This alteration has obviously no effect on the rating or underwriting of the risk. If the assignment is effected on the policy document itself, no stamp duty is payable. If however, it is effected on separate paper, it attracts a stamp duty.

f) Arbitration and disclaimer

The following points must be noted.

i. Differences regarding amount of loss (not question of liability) are to be referred to arbitration

ii. The award of arbitration is a precedent to suit in Court of Law

iii. If the insurers disclaim liability, the insured has to file a suit in a Court of Law within 12 months from the date of such disclaimer.

g) Special features of P.A. policy

i. The cover is for 24 hours (round the clock) and on a worldwide basis.

ii. Travel as a passenger in a licensed standard type of aircraft is automatically covered.

h) Rating

The basic principle of fixing rates of premium in any class of insurance is that rates of premium should be commensurate with the hazard involved. Thus, in fire insurance rates of premium vary according to the type of construction, the type of occupancy, the type of goods stored etc.

In personal accident insurance, the main factor considered is the occupation of the insured. Generally speaking exposure to personal accidents at home, on the street etc. is the same for all persons. But the risks associated with profession or occupation varies in accordance with the nature of work performed. For example, an office manager is less exposed to risk at work than a civil engineer working at a site where a building is being constructed.

It is not practical, to fix a rate for each profession or occupation. Hence, occupations are classified into groups, each group reflecting, more or less, similar risk exposure. The system of classification is simple and found to be feasible in practice.

7. Classification of risk

a) Risk group I

Accountants, Doctors, Lawyers, Architects, Consulting Engineers, Teachers, Bankers, persons engaged in administration functions, persons primarily engaged in occupations of similar hazards.

b) Risk group II

Builders, Contractors and Engineers engaged in superintending functions only, Veterinary Doctors, paid drivers of motor cars and light motor vehicles and persons engaged in occupation of similar hazards.
All persons engaged in manual labour (except those falling under Group III), cash carrying employees, garage and motor Mechanics, Machine operators, Drivers of trucks or lorries and other heavy vehicles, professional athletes, and sportsmen, woodworking Machinists and persons engaged in occupations of similar hazards.

c) Risk group III

Persons working in underground mines, explosives magazines, workers involved in electrical installation with high tension supply, Jockeys, circus personnel, persons engaged in activities like racing on wheels or horseback, big game hunting, mountaineering, winter sports, skiing, ice hockey, ballooning, hang gliding, river rafting, polo and persons engaged in occupations / activities of similar hazard.

Risk groups are also known in the form of 'Normal', 'Medium' and 'High' respectively.

8. Age limits

The minimum age limit is 5 years and maximum 70. However:

i. In case of persons who already have a cover, policies may be renewed after they complete 70 years but up to the age of 80 subject to a loading of the renewal premium.

ii. In case of fresh proposals from persons above 70 years but below 80 years cover may be granted at normal rates plus a specified loading percentage, which would be higher than that under(a) above.

No medical examination is required for renewal or fresh cover.

9. Family package cover

Family package cover may be granted on the following pattern:

a) **Earning member (Persons Insured) and Spouse, if earning:** Independent capital sum insured for each, as desired, within usual limitations as in individual

b) **Spouse (if not earning member):** 50% of the capital sum insured of the earnings. Spouse subject to a specified upper limit. E.g. Rs. 1,00,000 to Rs. 300000. .

c) **Children (between the age of 5 years and 25 years):** 25% of the capital sum insured of the earning parent subject to a specified upper limit; e.g. Rs 50000 per child.

Notes:

i. For children and non-earning spouse the cover is limited to death and permanent disablement (total or partial) However, based on Individual Company's norms the Table of Benefits may be considered. Some Companies allow TTD cover to unlearning spouse also upto a particular limit

ii. A discount of 5% is usually is granted on the gross premium.

10. Extensions of the policy with additional premium

a) Medical expenses

i. A personal accident policy can be extended by endorsement, on payment of extra premium to cover medical expenses incurred by the insured in connection with the accidental bodily injury.

ii. These benefits are in addition to the other benefits under the policies.

iii. It is not necessary that person has to be hospitalised.

b) War and allied risks

War risk cover can be granted to Indian personnel / experts working in foreign countries on civilian duties at the following additional premium.

i. P.A. policies issued during:

- ✓ Peace time
- ✓ Normal period

50% extra over the normal rate (i.e. 150% of the normal rate.)

ii. P.A. policies during

Abnormal/ apprehensive period (i.e. during the period when warlike conditions have already occurred or are imminent in foreign country/i.e. where the Indian personnel are working on civilian duties)

150% extra over the normal rate (i.e. 250% of the normal rate)

c) The proposal form

The form elicits information on the following:

- ✓ Personal details
- ✓ Physical condition
- ✓ Habits and pastimes
- ✓ Other or previous insurances
- ✓ Previous accidents or illness
- ✓ Selection of benefits and sum insured
- ✓ Declaration

i. Personal details relate to, inter alia, age, height and weight, full description of occupation and average monthly income.

ii. Age will show whether the proposer is within the limits of age for entrants for the policy desired. Weight and height should be compared with a table of average weight for sex, height and age and further investigation would be made if the proposer is 15 percent or more over or under the average.

iii. Physical condition details relate to any physical infirmity or defect, chronic diseases etc.

iv. Proposers who have lost a limb or the sight of an eye may only be accepted on special terms in approved cases. They constitute abnormal risks because they are "less able to avoid certain types of accidents and in view of the fact that if the remaining arm or leg is injured or the sight or the remaining eye is affected, the degree and length of disablement is likely to be much greater than normal.

v. Diabetes may retard recovery as the wound may not heal quickly and the disablement may be unduly prolonged. The medical history of the proposer must be examined in order to determine whether and to what extent injuries or illnesses may affect the future accident risks. There are many complaints of such an obviously serious nature as to make the risk uninsurable, e.g. valvular disease of the heart.

vi. Hazardous pastimes like mountaineering, polo, motor racing, acrobatics etc, require extra premium.

d) Sum insured

The sum insured in a personal accident policy has to be fixed with caution, as they are benefit policies and not subject to strict indemnity. Care should be taken to consider income derived through ‘gainful employment’. In other words, income which will not be affected by accident to the proposer should not be considered while determining the sum insured.

As practices of fixing the S.I varies among insures/underwriters, the exact amount for which the cover could be granted depends on the underwriters. However the general practice that the cover granted should not exceed the equivalent of 72 months / 6 years’ earning of the insured.

This restriction is not strictly applied if the policy is for capital only. For temporary total disablement cover however it should not happen that in the event of compensation payable, the same is disproportionate to his earnings during the same period. If the cover is for weekly compensation for TTD, the sum insured usually does not exceed twice his/her annual income.

While giving cover to persons who are not gainfully employed e.g. housewives, students etc. the insurers make sure that they provide for capital benefits only and that no weekly compensation is provided for.

Test Yourself 1

Which of the following changes needs to be notified to the insurer in case of personal accident policies.

I. Changes in salary
II. Change in occupation
III. Changes in marital status
IV. None of the above

B. Group personal accident policies

1. Introduction

Group policies have become popular because progressive employers have appreciated the importance of welfare benefit for their employees. These policies are also available to associations, clubs etc who find it administratively convenient to arrange a group policy to cover their members.

The essential requisites for a group policy are some common relationship among the persons to be insured and a central point for administration of the policy scheme.

Under the group policy, the term 'insured' is applied to the employer, association, etc. and the term 'insured persons' to those for whose benefit the insurance is effected.

Claims are payable to the insured, the employer, association etc. whose discharge shall be complete to the insurers and no insured person has an independent right of action against the insurers.

A group discount is allowed off the premium, if the number of insured persons exceeds 100. Group policy however may be issued when number is smaller, say 25. But no discount will be allowed on the premium

2. Types of policies

a) The Employer and Employee relationship

These policies are granted to firms, association etc. to cover:

- ✓ Named employees
- ✓ Unnamed employees

b) Non Employer-Employee relationship

These policies are granted to associations, societies, clubs, etc. to cover:

- ✓ Named members
- ✓ Members not identified by name

(Note: Employees may be covered separately)

Normally, policies on unnamed basis are issued only to very valued clients, where the identity of the member is clearly ascertainable beyond doubt.

3. Group discount criteria

Group policies should be issued only in respect of the named groups. For the purpose of availing of group discount and other benefits, the proposed “Group” should fall clearly under any one of the following categories

a) Employer – employee relationship including dependents of the employee

b) Pre identified segments / groups where the premium is to be paid by the State / Central Governments

c) Members of a registered co-operative society

d) Members of registered service clubs

e) Holders of credit card of banks / Diners / Master / Visa

f) Holders of deposit certificates issued by banks / NBFC’s

g) Shareholders of banks / public limited companies

In case of proposals relating to any further category different from the seven notified categories, they may be deliberated and decided upon by the technical department of the respective insurers.

No group discount can be offered on the ‘anticipated’ group size. Group discount is to be considered and worked out only on the actual number of members registered in the ‘Group’ at the time of taking out the policy. It will be reviewed at renewals.

4. Coverage

a) The coverage is the same as under individual policy except that cumulative bonus and education grant do not apply.

b) Medical expenses and war risks extensions are available.

5. Sum insured

The sum insured may be fixed for specific amounts separately for each insured person or it may be linked to emoluments payable to the insured persons. In the latter case, the following endorsement is incorporated in the policy.

The principle of Áll or None’applies in a group insurance. Additions and deletions are made thereto with pro rata additional premium or refund.

6. Premium

Varying rates of premium are applicable to named employees as per the classification of risks and the benefits selected. Thus rates will vary according to the occupation of persons covered.

Example

The same rate will apply to well defined groups of employee all of whom, broadly speaking follow the same type of occupation.

In respect of unnamed employees the employer is required to declare the number of employees in each classification based on authentic records maintained by him.

Rates of premium for named member of an Association, Clubs etc. apply according to the classification of risk.

Where the membership is of a general nature and not restricted to any particular occupation, underwriters use their discretion in applying the rates.

7. On-duty covers

a) If P.A cover is required only for the restricted hours of duty (and not for 24 hours a day), a reduced premium equivalent to 75% of the appropriate premium is charged.

b) The cover applies to accident to the employees arising out of and in the course of employment only.

8. Off-duty covers

If cover is required only for the restricted hours, when the employee is not at work and/or not on official duty, the reduced premium of 50% of the appropriate premium can be charged.

The following clause to be inserted in the policy

“It is clarified that this policy shall be in force and applicable only in respect of accidents taking place during the period insured employees are not at work and/or not on official duty”

9. Exclusion of death cover

It is possible to issue group P.A. policies excluding the death benefit, subject to following conditions:

a) A group life policy covering death benefit for the same group of persons is in existence

b) Group P.A. policy covers a group of 100 persons and above

c) A discount based on the premium applicable to death cover is allowed from the total premium

10. Group discount

Since a large number of persons are covered under one policy, there is less administrative work and expense. Besides, usually all members of the group will be insured and there will be no adverse selection against the insurers. Hence, a discount in premium is allowed, according to a scale.

11. Bonus/Malus

Rating under renewal of group policies is determined with reference to the claims experience.

a) Favourable experience is rewarded with a discount in the renewal premium (bonus)

b) Adverse experience is penalised by loading of renewal premium (malus), according to a scale

c) Normal rates will apply for renewal if the claims experience is, say, 70%

12. Proposal form

a) It is customary to dispense with forms for completion by the members and to have one document only, completed by the insured.

b) He is required to make a declaration that no member suffers from a physical infirmity or defect that would render his participation unacceptable.

c) Sometimes even this precaution is waived, it being understood and/or made clear by endorsement that disability prior to the commencement of cover and also any cumulative effect as a result of such disability stand excluded.

d) However the practice may vary among the companies.

Test Yourself 2

Which of the following groups is not eligible for coverage under group personal accident policies?

I. Employees of an organisation
II. Members of a club/association
III. Group of unrelated individuals
IV. None of the above

C. Personal accident insurance - Claims

1. Claim form

The onus of substantiating a claim under the policy rests on the insured. It is also necessary for him to comply with the condition of the policy concerning claim procedure. The usual relevant conditions are

- ✓ Notice of the occurrence be given immediately, to be followed by full details.

- ✓ The insured shall furnish satisfactory proof of all matters upon which a claim is based.

In practice, insurers have found it best to supply claimants with a printed claim form. The essential features of an accident claim form are

a) Personal details, such as age and occupation, so that these may be checked against the policy records.

b) Number of the policy and date of issue

c) Details of the accident (date and time, where and how) for the purposes of proof and to test whether the occurrence comes within, the definition of "accident" in the policy

d) The nature of the injuries, nature and extent of disability (capital sum or weekly benefit) is necessary for assessment of amount of loss

e) Whether a similar injury has been sustained before, in order to check the proposal form or previous advices

f) Other insurances, to see whether they have been disclosed previously or have been effected subsequently in order to keep in mind the principle of indemnity.

g) Name and address of the attending doctor (to consult him, if necessary)

h) Time and place where the insurers' doctor could visit the claimant, this visit may not be necessary in all cases but it is desirable to have this information ready. Besides, this could prove as a deterrent to a claimant who is inclined to malinger.

i) The declaration, whereby the insured warrants that all his answers are true

j) A medical certificate (sometimes issued as a separate form) in order to obtain a doctor's opinion of the injuries and of the alleged disability

2. Claims processing

Processing of claims also involves considerations relating to change of risk.

a) Occupation

The insurance is based on the insured following a certain occupation. Any change in occupation has to be intimated to the insurer as occupation is a central theme to granting insurance and keeping it in force.

Although legally claim can be repudiated on grounds of change of occupation, it is not done unless the accident occurred during the course of following the changed occupation. However where it is clear that the omission is due to a genuine oversight, and the new occupation was one which the insurers would have accepted, had they known of it, the claim is usually paid.

Where the new occupation is an acceptable one, but requires a higher rate of premium than that charged, the position is usually met by a payment, of only a percentage of the otherwise admissible claim amount against a complete discharge from the insured.

b) Physical defects

Non-disclosure of any such defect means that the claim can be repudiated, whether or not the defect concerns the injury for which the claim is being made. It is unlikely however, that any reputable insurer would take advantage of such a technicality, but that is the law.

If the physical defect brought to light by the claim is one which would have rendered the risk unacceptable had it been known at the time of acceptance or last renewal, then the claim is refused. If, notwithstanding the physical defect, the risk would still have been acceptable, although on different terms, the claim may be settled ex-gratia on the basis of the terms which would have applied.

c) Proximate cause

The doctrine of proximate cause is also relevant to processing of claims. The following are illustrations based on case law.

i. An accident and a disease may be in operation both at the same time and it has to be decided whether the result is caused by accident or disease. If the disease is present before the accident and the accident causes a condition which is in no way contributed to by the disease, then the condition is proximately caused by the accident,

   E.g. if a sufferer from asthma is able to travel to and from his business and in the course of a journey falls into a street excavation and breaks his leg, this is an accidental injury.

ii. If either accident or disease could have produced the result, then a claim for the accident cannot be admitted unless there is proof of the accident being the proximate cause of death

   E.g. A man with a heart disease was thrown from a cart and found dead nobody could tell what was the cause of death. It might have been the disease or it might have been the accident.

iii. The disease which produces the ultimate result follows the accident and was not there beforehand. In such case, the accident remains the proximate cause so long as the events which follow it are the natural ones in such circumstances.

   E.g. The sequence may be accident, shock, weakness, chill, which in weakened condition leads to pneumonia and death. Death is caused by accident.

   On the other hand, a person, who is hospitalised for accidental injuries, contracts infectious disease in the hospital and dies, the disease, which is a new intervening cause, is regarded as the proximate cause hence rendering the claim untenable.

iv. The disease promotes the accident but the injuries are due to the accident. For example, fit – fall into river – drowned – death. Here, the disease is the remote cause and the accident the proximate cause.

d) Documents

The following documents are necessary

Table 1.2

Document	Purpose
Claim form	To supply particulars of the occurrence.
Medical Certificate	To obtain medical opinion on the cause or extent of incapacity or progress towards recovery.
Medical examiner's report	To corroborate medical certificate in doubtful cases, or if other causes are in operations.
Receipt/Discharge form	To acknowledge the money and to confirm the finality of the settlement.
Death certificate	To give the date and cause of death. Post-mortem reports where a post-mortem has been done.
Probate or letters of administration	The legal document to prove the title of an executor or an administrator (i.e. if no assignment is made)

For disability claims the documents, inter alia, required are:

i. Authentic Certificate from proper authority, certifying the percentage of disablement, Medical Certificate, diagnostic reports etc.
ii. Prescription, bills and receipts
iii. Leave of absence certificate from the employer
iv. Medical fitness certificate

e) Claims under P.A. where the insured person is presumed to be dead (Body not found)

i. These claims should be processed on an individual basis.
ii. No fixed procedure for handling such claims can be given.
iii. Claims can be processed and settled on the basis of documents/certificates issued by the relevant authorities.

Test Yourself 3

The onus of substantiating a claim under the policy rests on the ___________.

I. Insured
II. Insurer
III. Both I and II
IV. None of the above

D. Personal accident covers – Types

Market research accompanied by customer research especially after the opening up of the insurance market has brought forth a number of forms in which this cover is now given. But the basic coverage is for 'accidental death or disablement', with the same set of exclusions as stated previously.

Some of the policies available which are different forms of personal accident cover are as mentioned below. Most of the companies offer these covers under different nomenclature.

1. Flight insurance coupons

Passenger flight coupon provides cover for accidental bodily injury (as defined in the personal accident policy), whilst in or entering into or descending from any aircraft owned and/or operated by a regular airline over a scheduled route by which the insured is travelling as a passenger during the flight specified. The benefit chart is the same as the basic personal accident cover. However, the period of cover is restricted to the travel time only.

The rate of premium varies between insurers.

There are two methods of issuing these covers

a) The cover may be issued for specific flight(s) only

Flat premium is charged based on the sum insured and the duration of flight(s).

b) The cover may be issued for a certain specific period of time and the company will be at risk in respect of all the flights undertaken by the insured within that period.

i. A deposit premium is collected from the insured, equal to number of flights, expected to be undertaken during the policy period.

ii. At the end of the policy period the insured is expected to declare all the flights actually undertaken by him.

iii. On the basis of this information the premium earned is calculated and the deposit premium is adjusted.

These declaration policies can be given not only to individuals but also to companies in respect of their employees, who travel by air frequently.

Arranging covers on specific flight basis is time consuming and cumbersome for both the insurer as well as the insured. The insurer has to issue a document each time a flight is undertaken. Often people may have to fly at short notice and may not have sufficient time to obtain a flight insurance coupon.

Declaration policies are therefore popular. Since however, the insurer is fully dependent upon the insured for accounting of each and every flight undertaken, (basis for calculating premium) moral hazard of the proposer should be beyond reproach. Such covers are therefore given only to reputed concerns and clients of long standing.

In the present scenario, many of the banks include personal accident covers as an additional benefit to credit card holders, with certain enhancements in compensation payable while flying.

2. Janta personal accident insurance

This policy was specifically designed to cater to the needs of the economically weaker section of the society. The policy covers only death and permanent total disablement, as specified in the regular personal accident policy. Permanent partial disablement, temporary total disablement and medical expenses extension is normally not allowed under this policy.

The clientele targeted were low income groups, which could avail of the benefits of lower rates due to group discounts. Moreover, since JPAs were issued to groups, the hassles of documentation and dealing with the insurers were done by the group monitors, which helped the 'not so literate' beneficiaries.

The coverage, rates, terms and conditions were as per the market agreement entered into by the four PSUs. Initially the policy was restricted to maximum sum insured of Rs. 1 lakh per person and the period of insurance to a maximum of five years. Subsequently, the market agreement ceased to exist and so did the rules, regulations and restrictions. For a time thereafter the market witnessed rampant misuse of the cover especially as regards sum insured's and period of cover.

Presently, the main differences between the normal PA and JPA are as follows.

a) This policy can be issued for more than one year and is issued usually for 3 to 5 years

b) The sum insured is restricted to an amount of Rs. 1 lakh

c) The cover is limited and fixed

d) Simple underwriting procedure

3. Group Janta personal accident insurance

Group insurance policy can be issued covering Janta Personal Accident. The norms for groups are the same as stated for a regular group personal accident policy. In addition to the same, there are some additional features indicated below.

i. Claims under such policies cannot be paid to anyone other than the individual insured/legal heirs

ii. Wherever group policies for higher sum insured are needed, the same shall be covered under personal accident policy

iii. Since JPA policies can be issued for a period exceeding 12 months, a long term discount for the same may be allowed as follows:

Table 1.3

Term of the Policy (Years)	Discount (%)
1	Nil
2	5
3	10
4	15
5	20

The exclusions are the same as under individual personal accident policy.

a) Underwriting instructions

i. The policy in respect of individual or group JPA can be issued for a maximum period of 3-5 years

ii. In case of long term policy, the premium is to be collected in one lump sum amount in advance

iii. No refund of premium will be allowed even if the claim arises in the earlier years under long term policy

iv. No renewal of group policy should be encouraged where loss ratio is 70% and above

v. PTD should be covered as per existing JPA policy and only death cover should not be given

b) Claims procedure

The same procedure as applicable to personal accident claims, shall apply here.

Some additional stipulations as regards claims under JPA are as follows.

4. Student Safety Insurance

This insurance is available to schools, colleges or other educational institutions. The policy provides personal accident benefits to registered students. The benefits available are restricted to death, permanent total disablement and permanent partial disablement. The sum insured per student may be fixed by the respective insurers. Usually a limit per accident and also per policy period is applied.

This cover may be extended to include medical expenses incurred by the student for treatment in a hospital / nursing home as inpatient for injuries sustained in an accident up to specified limits.

Premium is charged as a percentage on the limit for one year plus a per capita charge on the number of students. Rate is reduced if the number of students covered is large.

Features of the scheme:

a) Policy is issued in the name of institution

b) The students are insured persons

c) Claim amount is payable to the parent / guardian as recorded in the school register

d) Claim papers are to be routed through the institution for proper processing

e) Maintenance of attendance register and declaration from institution to that effect

f) All students are to be covered

g) Additional students are covered during policy period at extra premium. But no deletions are allowed.

5. Traffic Accident Policy/Rasta Aapathi Kavach

This insurance policy has been designed to cater to the specific needs of an individual who meets with an accident with a motor vehicle on road or rail and sustains injuries which requires hospitalisation for treatment. The policy also has provision for compensation in case of death and permanent disability. There are two sections under the policy.

a) Section I

The personal accident section which covers accidental death or permanent disablement for the specified sum insured.

b) Section II

Hospitalisation/Medical expenses incurred during hospitalisation for treatment of bodily injury caused by and arising out of such road/rail accident.

The sum insured under both sections is identical. The available sum insured is Rs.25, 000/- , Rs.50, 000/-, Rs.75, 000/-, and Rs.1, 00, 000/- The policy is issued on an annual basis. Outpatient medical treatment is also covered up to a specified limit.

6. Domestic Traveller's policy/ Suhana Safar policy

This policy is intended for the domestic traveller.

Suhana Safar policy has been basically designed keeping an eye on the domestic travel market. The domestic traveller can now avail of an insurance policy for a short duration or travel up to a specified period within India. The policy covers any mode of transport i.e. by Rail/Road/Air/Water including travel by the insured's own vehicle.

The policy covers the following:

a) Risk of personal accident to the proposer and his family for a specified sum insured

b) Loss or damage to the accompanied baggage of a family consisting of insured, spouse and dependent children for a specified amount

Other special features of the policy are as follows.

i. The cover operates from declared place of departure and terminates on schedule date of return or on actual return, whichever may happen earlier

ii. The policy also provides for reimbursement of actual emergency incidental expenses up to around Rs.1000/- per head, arising from personal accident

iii. The premium depends on the number of persons undertaking the tour

7. Policy covering education expenses/Amartya Shiksha Yojana policy

This is a policy designed to cover the education expenses of the insured student, if the providing parent or guardian is involved in an accident, which results in his death or permanent total disablement.

The features of this policy are as follows

a) The policy is basically designed to cover the educational expenses of the insured student

b) The sum insured depends upon the educational expenses of a particular course

c) The policy period is commensurate with the period of the course undertaken (long term policy usually)

d) The compensation amount is deposited with a financial institution, which in turn releases amounts based on the demands made by the educational institution

e) The amount which remains in the account after the completion of the course is paid to the insured student

f) In case the student discontinues studies, the amount outstanding in his account is paid to him after the due date when the course would have ended, had he/she continued with the same

A special feature of this policy is that, if the death of the parent/providing guardian occurs due to surgery or within seven days thereof, the same is treated as an accident and covered under the policy.

Test Yourself 4

What is not true regarding Janta Personal Accident Insurance?

I. It was specifically designed to cater to the needs of the economically weaker section of the society
II. The policy covers only death and permanent total disablement
III. Medical expenses extension is generally allowed under this policy
IV. None of the above

E. Personal accident based social insurances

1. Rajarajeshwari Mahila Kalyan Yojana

The policy is designed to provide economic security to women. All sections of women in the age group of 10-75 years irrespective of their income, vocation or occupation can be covered under this policy. The benefits under the policy can be divided into two parts.

- ✓ Basic cover
- ✓ Disablement of the insured woman

a) Disability cover for insured women

i. Permanent total disablement: Rs.25,000/-

ii. Loss of two limb/both eyes/one limb and one eye: Rs.25,000/-

iii. Loss of one limb/one eye: Rs.12,500/

b) Death cover for insured women

i. **For married women:** Policy provides compensation of Rs.25,000/- in the event of death of husband due to accident

ii. **For unmarried women:** Policy provides compensation of Rs. 25,000/-in the event of death of the insured to the nominee/legal heir

c) Additional cover

i. **Temporary total disablement:** Rs.500/- per month subject to a maximum of Rs.1, 500/

ii. **Expenses incurred for legal divorce proceedings:** Actual not exceeding Rs.2, 000/-

iii. **Loss/damage to household goods due to fire, flood, riot, terrorism:** Up to a limit of Rs.2, 000/-

Death/Disablement would mean not only death/disablement arising out of accident, but also include death/disablement during child birth at hospital and surgical operation such as sterilisation, caesarean, hysterectomy and removal of breast due to cancer provided that it occurs within 7 days from the date of operation.

d) Premium

i. Rs.15/- per woman per annum for the basic cover

ii. Rs.23/- per woman per annum for both basic and additional cover

e) Discounts

i. Group discount varies from 5% to 30% based on the group size

ii. Long term discount ranges from 5% to 20% depending upon the period of insurance.

2. Bhagyashree child welfare policy

This scheme is applicable to girl children up to 18 years, whose parents' age does not exceed 60 years. The scheme is intended to provide insurance cover to one girl child in a family who loses either the father or the mother due to accidental death.

a) Coverage

i. In case of accidental death of either of the parents, or both, within 6 months of the occurrence of the accident, then the company will deposit a sum of Rs. 25000/- in the name of the girl child insured with a pre-decided financial institution.

ii. The financial institution shall make disbursements from the corpus created, to the living parent or to the nominated guardian in the following manner.

The amounts shown are for the purpose of illustration only.

Table 1.4

Age of the child	Amount of compensation	Payable to and only if
0-5 years	Rs.1200 pa	Surviving parent or guardian
6-11 years	Rs. 1200 pa	Surviving parent or guardian provided the girl child is admitted to school and expenditure incurred on education
12-17 years	Rs. 2400 pa	Surviving parent or guardian provided the girl child is admitted to school and expenditure incurred on education
18 years	Balance amount to the credit of the insured girl child	To the insured girl child

b) Other features

i. In case of discontinuation of studies by the child, the scholarship will not be paid but on completion of 18 years, balance amount to her credit will be paid in lump sum

ii. In case of death of the insured child, before attaining the age of 18 years, the balance amount standing to the credit of the girl child would be paid to the surviving parent or guardian

iii. The premium is Rs. 15/- per girl child per annum with group discounts applicable, based on the group size.

Test Yourself 5

Choose the incorrect statement.

I. Suhana Safar policy covers any mode of transport
II. Amartya Shiksha Yojana policy is designed to cover the education expenses of the insured student
III. Student Safety Insurance policy is issued in the name of students
IV. None of the above

Summary

a) Personal accident insurance covers death or disablement to the insured person, arising out of accident.

b) Basic principles that guide personal accident insurance include utmost good faith, insurable interest and subrogation etc.

c) Permanent total disablement, permanent partial disablement and temporary total disablement are covered under P.A. policy.

d) The exclusions commonly found in personal accident policies include payment of compensation in respect of death, injury or disablement of the insured, from intentional self-injury, suicide or attempted suicide or from service in the armed forces etc.

e) P.A. policy may be renewed by mutual consent every year and in such event, the renewal premium shall be paid to the company on or before the date of expiry of the policy or of the subsequent renewal thereof.

f) The company may at any time, by notice in writing, terminate the policy and the company shall return to the insured a pro-rata part of the premium.

g) In personal accident insurance, the main factor used to arrive at the premium is the occupation.

h) Medical expenses, war and allied risk extensions can be availed under a P.A. policy can be availed for an additional premium.

i) Group personal accident policies are availed by large groups such as employees, club members etc. A group discount can be offered under such policies.

j) Flight insurance coupons, Janta Personal Accident insurance etc. are different types of P.A. covers offered.

k) Rajarajeshwari Mahila Kalyan Yojana, Bhagyashree child welfare policy are some of the P.A. based social insurance schemes.

Answers to TestYourself

Answer 1

The correct option is II.

Change in occupation needs to be notified to the insurer in case of personal accident policies.

Answer 2

The correct option is III.

Group of unrelated individuals is not eligible for coverage under group personal accident policies.

Answer 3

The correct option is I.

The onus of substantiating a claim under the policy rests on the insured.

Answer 4

The correct option is III.

Medical expenses extension is generally not allowed under Janta Personal Accident insurance.

Answer 5

The correct option is III.

Student Safety Insurance policy is issued in the name of the institution and the students are the beneficiaries.

Self-Examination Questions

Question 1

Samit has two personal accident insurance policies with a sum insured of Rs 1, 00, 000 and Rs 2, 00, 000 each.
He dies in an accident. What is the amount he is eligible to receive?

I. Rs 3, 00, 000
II. Rs 1, 00, 000
III. Rs 2, 00, 000
IV. Rs 1, 50, 000

Question 2

Samit is an asthma patient who can travel. During one of his travels he falls into a street excavation site and breaks his leg. Will this be covered under personal accident policy?

I. Yes
II. No
III. Can't say
IV. None of the above.

Question 3

Samit is an asthma patient who can travel. During one of his travels he falls into a street excavation site and breaks his leg. He is shifted to a hospital where he contracts an infectious disease resulting in death. Will his death be covered under personal accident policy?

I. Yes
II. No
III. Can't say
IV. None of the above.

Question 4

__________ is not a personal accident based social insurance scheme?

I. Rajarajeshwari Mahila Kalyan Yojana
II. Bhagyashree child welfare policy
III. Rashtriya Swasthya Bima Yojana
IV. None of the above

Question 5

The proposal form in a personal accident policy elicits which of the below mentioned information?

I. Personal details
II. Physical condition
III. Habits and pastimes
IV. All of the above

Answers to Self-Examination Questions

Answer 1

The correct option is I.

Rs 3, 00, 000 will be received by Samit as the principle of contribution does not apply to personal accident policies.

Answer 2

The correct option is I.

Yes. The accident will be covered under personal accident policy.

Answer 3

The correct option is II.

No. The death will not be covered under personal accident policy as accident is not the proximate cause of the death.

Answer 4

The correct option is III.

Rashtriya Swasthya Bima Yojana is not a personal accident based social insurance scheme.

Answer 5

The correct option is IV.

The proposal form in a personal accident policy elicits information related to personal details, physical condition, habits and pastimes.

CHAPTER 2

HEALTH INSURANCE

Chapter Introduction

The chapter introduces you to the basics of health insurance policies. We discuss the coverage offered, the exclusion that exist and the conditions that are a part of these health insurance policies. We also look at group health policies with regards to various parameters such as group discount, bonus/malus and maternity benefit extension etc. We then explore the various health covers available in the market such as tertiary care insurance, critical illness/dreaded diseases cover and cancer medical expense policy etc. and finally we look at some of the social healthcare schemes.

Learning Outcomes

A. Health insurance – Basics
B. Group health policies
C. Health insurance – Developments
D. Health covers available in the market
E. Health covers for the social sector

Look at this Scenario

Q. Why don't my parents have health insurance?

Samit is asking himself this question. His father had been admitted to a hospital recently for a case of broken leg sustained as result of an accident that occurred while he was climbing up the stairs. Samit does not have enough money to bear the costs related to surgery and hospitalisation. This means his father will have to spend the rest of the life walking with a limp.

Answer

The answer to the above question is that most of the people in India either take their health for granted or possess a complete lack of awareness about the services offered by the health insurance sector in India.

The scenario mentioned above is quite tragic in the sense that an individual has to entertain a walking defect for the want of finances. However the blame partly lies with individual. If we look at it from a statistical point of view we can clearly come to the conclusion that availing a health insurance policy when one is young and healthy makes great economic and common sense. We all save for emergencies but wouldn't it would be nice if some these savings took the form of **Health Insurance**.

A. Health insurance – Basics

1. History of health insurance

Health Insurance or medical expense insurance schemes have been in existence for a number of years prior to nationalisation of insurance business. These policies were granted on a group basis, only to large corporate clients purely on an accommodation basis as claim experience was unsatisfactory. There was no scheme for individuals and families.

In 1981, a limited cover was devised for individuals and families. This was replaced by a Mediclaim policy in 1986 under a market agreement. The policy initially had sub-limits for various reimbursements like room and boarding, Doctor's fees, medicines etc. The scheme was modified in 1996 wherein these sub-limits were removed.

In 2006, in the light of experience and suggestions from the insuring public and the medical fraternity, the scheme was again changed with the sub-limits under different sections being reintroduced. This scheme was available both on an individual and group basis. A mini version of the scheme "Jan Arogya Bima Policy" for the weaker sections of the society was also introduced in 1996.

Since then, there have been a number of changes and modifications in the way, health policies are designed, operated and administered. Today, health insurance forms a major chunk after motor insurance, of general insurers' premium income.

2. Coverage provided by health policies

The policy provides for reimbursement of hospitalisation/domiciliary hospitalisation expenses for illness / disease suffered or accidental injury sustained during the policy period.

The policy pays for expenses incurred under the following heads:

a) Room, Boarding expenses in the Hospital / Nursing Home

b) Nursing expenses

c) Surgeon, Anaesthesia, Medical Practitioner, Consultants, Specialist fees

d) Anaesthesia, Blood, Oxygen, Operation Theatre charges, Surgical appliances, Medicines and Drugs, Diagnostic materials, and X-Ray, Dialysis, Chemotherapy, Radiotherapy, cost of Pacemaker, Artificial limbs and cost of Organs and similar expenses

Note: The liability in respect of all claims admitted during the period of insurance shall not exceed the sum insured for the person as mentioned in the schedule

3. Important terms

a) "Hospital / Nursing Home" means any institution in India established for indoor care and treatment of sickness and injuries and which

Either

i. Has been registered either as a Hospital or Nursing Home with the local authorities and is under the supervision of a registered and qualified Medical Practitioner.

OR

ii. Should comply with minimum criteria as under:

- ✓ It should have at least 15 in-patient beds (10 beds in class 'C' towns), fully equipped operation theatre of its own wherever surgical operations carried out.

- ✓ Fully qualified nursing staff under its employment round the clock

The term “Hospital / Nursing Home” shall not include an establishment which is a place of rest, a place for the aged, a place for drug-addicts or place for alcoholics, a hotel or a similar place.

b) “**Surgical Operation**” means manual and / or operative procedures for correction of deformities and defects, repair or injuries, diagnosis and cure of disease, relief of suffering and prolongation of life.

4. Reimbursement criteria

Reimbursement is allowed only when treatment is taken in a hospital / nursing home which satisfy the following criteria.

a) Expenses on hospitalisation for minimum period of 24 hours are admissible.

b) However, this time limit is not applied to specific treatment e.g.:

- ✓ Dialysis
- ✓ Chemotherapy
- ✓ Radiotherapy
- ✓ Eye Surgery
- ✓ Dental Surgery
- ✓ Lithotripsy (Kidney stone removal)
- ✓ D&C
- ✓ Tonsillectomy done in a Hospital / Nursing Home where the insured is discharged on the same day

All the above cases will be considered to be taken under hospitalisation benefit. Moreover, there may be other cases where the 24 hour stipulation does not apply. These matters are decided on a case to case basis based on each Company’s guidelines.

c) Relevant medical expenses incurred during period up to 30 days prior to and period of 60 days after hospitalisation are treated as part of the claim.

5. Domiciliary hospitalisation benefit

Domiciliary hospitalisation benefit was allowed under the original mediclaim policies issued by the public sector insurers. Today, this cover is not very popular and hence not commonly available.

a) Domiciliary hospitalisation

Domiciliary hospitalisation means, medical treatment for a period exceeding three days for such illness / disease / injury which in the normal course would require care and treatment at the hospital / nursing home but actually taken whilst confined at home in India under any of the following circumstances namely:

i. The condition of the patient is such that he / she cannot be removed to the hospital / nursing home or

ii. The patient cannot be removed to hospital / nursing home for lack of accommodation therein

b) Exceptions

However these benefits shall not cover:

i. Expense incurred for pre and post hospital treatment and

ii. Expenses incurred for treatment for certain diseases, some of which are as follows:

- ✓ Asthma
- ✓ Bronchitis
- ✓ Chronic Nephritis
- ✓ Diarrhoea and all type of Dysenteries including Gastro-enteritis
- ✓ Diabetes Mellitus and Insipidus
- ✓ Epilepsy
- ✓ Hypertension
- ✓ Influenza, Cough and cold
- ✓ All psychiatric of Psychosomatic Disorders
- ✓ Pyrexia of unknown origin for less than 10 days
- ✓ Tonsillitis and upper respiratory Tract infection including Larynigitis and Pharyngitis
- ✓ Arthritis, Gout and Rheumatism

6. Important terms – Explanation

All the terms used are defined in the policies. Some of them are as under.

a) Continuous illness

i. Any one illness will be deemed to mean continuous period of illness and it includes relapse within a certain number of days (105 presently) from the day of last consultation with the hospital / nursing home where treatment may have been taken.

ii. Occurrence of same illness after a lapse of 105 days as stated above will be considered as fresh illness for the purpose of this policy.

iii. This term is relevant when the illness is spread over two different policy periods.

iv. To arrive at the sum insured that should be considered for reimbursement, this aspect has been defined.

Example

If a person is hospitalised in the last month of a policy and the policy is renewed without break. In that case, even if the period of illness spreads over to the new period of insurance, the sum insured that shall be considered for reimbursement, shall be the balance available in the previous policy.

The sum insured under the renewed policy shall not be touched. This logic is applicable, even if there is a relapse of the earlier illness within the stipulated limit of 105 days.

b) Medical practitioner

Medical practitioner means a person who holds a degree / diploma of a recognised institution and is registered by Medical Council of respective State of India. The term Medical Practitioner would include Physician, Specialist and Surgeon.

c) Nurse

Qualified nurse means a person who holds a certificate of a recognised Nursing Council and who is employed on recommendations of the attending Medical Practitioner.

7. Health policy - Exclusions

The normal exclusions under health policies are as follows:

There is no liability under the policy in respect of the following:

a) Such diseases that have been in existence at the time of proposing the insurance. Pre-existing condition means any injury that existed prior to the effective date of this insurance. As per IRDA norms, this exclusion will not apply if the policy has been in force for a continuous period of four years. However, individual companies can have their own period not exceeding the stipulated period of 48 months, as the period when this exclusion will be applicable.

b) Any hospitalisation / domiciliary expenses incurred in the first 30 days from the commencement date of insurance except in case of injury arising out of accident

c) During the first one year/two years of the operation of the policy the expenses on treatment of diseases such as Cataract, Benign Prostatic Hypertrophy, Hysterectomy for Menorrhagia or Fibromyoma, Hernia, Hydrocele, Congenital Internal Disease, Fistula in anus, Piles, Sinusitis and related disorders are not payable. If these diseases are pre-existing at the time of proposal they will not be covered for the period when the pre-existing exclusion applies

d) War and kindred perils and nuclear weapons materials

e) Circumcision unless necessary for treatment of a disease not excluded hereunder or as may be necessitated due to an accident, vaccination or inoculation or change of life or cosmetic or aesthetic treatment of any description, plastic surgery other than as may be necessitated due to an accident or as a part of any illness

f) Circumcision, vaccination and change of life (also known as menopause) are not diseases. Some of these conditions are covered only if associated with disease or illness or accident, which falls within the scope of the policy.

g) Cost of spectacles and contact lenses, hearing aids. These may be termed as normal maintenance expenses

h) Dental treatment or surgery of any kind unless requiring hospitalization

i) Convalescence, general debility, run down condition or rest cure, congenital external disease, or defects or anomalies, sterility, venereal disease, intentional self injury and use of intoxicating drugs / alcohol

j) Convalescence etc. are not diseases. Congenital (i.e. existing at birth) diseases are pre-existing and hence excluded; venereal disease or use of drugs / alcohol are excluded on grounds of public policy. Prevention is within the control of the insured

k) Various conditions commonly referred to as AIDS. This is a disease that can be acquired through several sources and has no known treatment.

l) Charges incurred at hospital or nursing home primarily for diagnostic, X-Ray or laboratory examinations or other diagnostic studies not consistent with or incidental to the diagnosis and treatment or the positive existence or presence of any ailment, sickness or injury for which confinement is required at a hospital / nursing home or at home under domiciliary hospitalisation as defined.

m) This exclusion is introduced to ensure that the insured is not tempted to undergo diagnostic tests just to take advantage of the policy. In any case, the insured is expected under common law to act as if he is uninsured and to take precautions.

n) Expenses on vitamins and tonics unless forming part of treatment for injury or disease as certified by the attending Physician

o) Treatment arising from or traceable to pregnancy, childbirth including caesarean section (can be deleted, if Maternity Benefit is covered)

p) Naturopathy treatment

8. Age limit

a) This insurance is available to persons between the ages of 5-75 years

b) Children between the age of 3 months and 5 years of age can be covered provided one or both parents are covered concurrently.

c) It is pertinent to note that insurers today, consider insurance of new born from day one under group health insurance schemes

9. Family discount

This discount of 10% in the total premium is allowed to a family comprising the insured and any one or more of the following:

- ✓ Spouse
- ✓ Dependent Children (i.e. legitimate or legally adopted)
- ✓ Dependent parents

10. Other provisions

The other provisions of the policy are as follows:

a) All claims under this policy shall be payable in Indian currency

b) All medical treatments for the purpose of this insurance will have to be taken in India only

11. Cumulative bonus

c) The sum insured is increased by 5% for each claim free year of insurance subject to a maximum accumulation of 10 years.

d) In the event of a claim, the increased percentage will be reduced by 10% of the sum insured at the next renewal but the basic sum insured will remain the same.

12. Cost of health check-up

The insured shall be entitled to reimbursement of medical check-up once in every four underwriting years subject to no claim preferred during this period. The cost is usually limited to 1% of the average sum insured during the block of four years.

Note:

- ✓ Both the above benefits apply in respect of continuous insurance without break.
- ✓ In exceptional circumstances maximum 7 days break is allowed subject to medical examination.

13. Conditions

a) All notices under the policy shall be in writing.

b) The payment of premium in advance and the due observance of the terms etc. of the policy is a condition precedent to liability of the company.

c) Preliminary notice of claim with particulars relating to policy number, name of insured person in respect of whom claim is made, nature of illness / injury and name and address of the attending Medical Practitioner / Hospital / Nursing home should be given by the insured person to the company/TPA within seven days from the date of hospitalisation, domiciliary hospitalization

d) Final claim with receipted bills, cash memos, claim form and list of documents as listed in the claim form etc. should be submitted to the company/TPA within 30 days from the date of completion of treatment.
(Note: In extreme cases of hardship to the insured, these limits may be waived.)

e) The insured shall furnish all original bills, receipt and other documents on which a claim is based and provide additional information and assistance as the company may require.

f) The company has a right to arrange medical examination of the insured person in case of any alleged injury or disease requiring hospitalisation.

g) No liability under the policy if the claim is fraudulent or supported by fraudulent means.

h) If there are other insurance policies covering the same loss, the company shall be liable only for its ratable proportion. However, the benefits under the policy shall be in excess of the benefits under the Cancer Insurance policy if any, issued by New India Assurance Company.

i) The policy may be renewed by mutual consent. The insurer may cancel the policy after a notice period of 30 days with pro-rata refund of premium. The company shall however remain liable for any claim which arose prior to the date of cancellation.

j) The policy may be cancelled by the insured and refund will be made at short period scale, subject to no claim under the policy.

k) Differences regarding the amount of claim to be referred for arbitration.

l) If liability for any claim is disclaimed and the insured does not, within 12 calendar months from the date of receipt of such notice of disclaimer, notify the company in writing that he does not accept the disclaimer and intends to receive his claim, the claim shall be deemed to have been abandoned.

14. Schedule of the policy

In addition to the usual details such as, name, address etc, the schedule provides for details of the insured and the family members covered and residing with the insured as follows.

Name / age / sex / relationship with the insured / occupation / sum insured / domiciliary hospitalisation limit / premium

The policy incorporates premium certificate for the purpose of deduction under Section 80-D of Income Tax (Amendment) Act, 1986.

This is to certify that Shri / Smt.______________________________________has paid Rs.______________________ (Rupees) towards premium for REVISED MEDICLAIM INSURANCE for the period from _______________to________________

Date:_______________ For and on behalf of Co. Ltd.
Place:

Authorised Signatory

Address:

Note: This certificate must be surrendered to the insurance company for issuance of a fresh certificate in case of cancellation of the policy or any alteration in the policy affecting the premium.

15. Sum insured and premium

The sum insured normally available is from Rs. 50000/- up to a maximum of Rs. 500000/-. However, the minimum and maximum sum insured varies between insurers.

The premium is related to the age of the person and to the sum insured selected by the insured. For rating purposes, insurers divide the population into pre-defined age slabs. E.g. below 25 years, 25 to 35 years and up to 60/65 years etc.

Premium qualifies for tax benefit under section 80D of Income Tax Act. The limit was Rs 10,000 which was later increased to Rs 15000 (for senior citizen Rs 20000). Further, a separate limit was provided of Rs 15000 for premium payment to cover dependent parents.

16. Proposal form

a) The proposal form incorporates a prospectus which gives details of the cover, such as coverage, exclusions, provisions etc. The prospectus forms part of the proposal form and the proposer has to sign it as having noted its contents.

b) The proposal form elicits information relating to name, address, occupation, date of birth, sex, relationship of the insured person with the proposer, average monthly income and income tax PAN No., name and address of the Medical Practitioner, his qualifications and registration number.

c) In addition, there are questions relating to the medical condition of the insured person. These detailed questions in the revised form are based on past claims experience and are to achieve proper underwriting of the risk.

d) The insured person is required to state full details if he has suffered from any of the specified diseases in the form.

e) Further, the details of any other illness or disease suffered or accident sustained are called for as follows:

i. Nature of illness / injury and treatment
ii. Date of first treatment
iii. Name and address of attending Doctor
iv. Whether fully recovered

f) The insured person has to state any additional facts which should be disclosed to insurers and if he has any knowledge of any positive existence or presence of any illness or injury which may require medical attention.

g) The form also includes questions relating to past insurance and claims history and additional present insurance.

h) The special features of the declaration to be signed by the proposer must be noted.

i) The insured person consents and authorises the insurer to seek medical information from any hospital / medical practitioner who has at any time attended or may attend concerning any illness which affects his physical or mental health.

j) The insured person confirms that he has read the prospectus forming part of the form and is willing to accept the terms and conditions.

k) The declaration includes the usual warranty regarding the truth of the statements and the proposal form as the basis of the contract.

17. Medical questionnaire

In case of adverse medical history in the proposal form, the insured person has to complete a detailed questionnaire relating to Diabetes, Hypertension, Chest pain or Coronary Insufficiency or Myocardial Infarction.

These have to be supported by a form completed by a consulting physician. This form is scrutinised by company's panel doctor, based on whose opinion, acceptance, exclusion, etc are decided.

IRDA has stipulated that a copy of the proposal form and the annexures thereof, have to be attached to the policy document and the same should be sent to the Insured for his records.

Test Yourself 1

Which of the following is not covered under health insurance policies?

I. Room, boarding expenses in the hospital / nursing home
II. Nursing Expenses
III. Cosmetic surgery for beautification purpose
IV. None of the above

B. Group health policies

The group Mediclaim is available to any group / association / institution corporate body provided it has a central administration point and subject to a minimum number of persons to be covered. Unnamed cover is not allowed.

Each insured should cover all eligible named members (insured persons) under one group policy. In other words different categories of eligible members are not allowed to be covered under different group policies.

The group policy is issued in the name of the group / association / institution / corporate body (called Insured) with a schedule of names of the members including his / her eligible family members (called insured persons) forming part of the policy.

The coverage under the policy is the same as under individual Mediclaim with the following differences:

- ✓ Cumulative bonus and health check-up expenses are not payable.
- ✓ Group discount in the premium is available
- ✓ Renewal premium is subject to bonus / malus clause.
- ✓ Maternity benefit extension is available at extra premium.

1. Group discount

The group discount is allowed according to scale depending upon the total number of insured persons covered under the group policy at the inception of the policy. Increase / decrease in the size of the group during the currency of the policy is allowed.

The final group discount (increase/ decrease) will be adjusted on the basis of the size of the group existing on the last day of the policy period provided the policy is renewed. Some Insurers however do not follow the practice but the percentage of discount will be considered afresh only for the renewal policy based on the number at the beginning of the renewed period.

2. Bonus / Malus

a) Low claim ratio discount (Bonus)

Low claim ratio discount is allowed on the total premium at renewal only depending upon the incurred claims ratio for the entire group insured under the group Mediclaim insurance policy for the preceding 3 completed years excluding the year immediately preceding the date of renewal.

Where the group Mediclaim insurance policy has not been in force for 3 completed years, such shorter period of completed years excluding the year immediately preceding the date of renewal is taken into account.

Note: Incurred claims mean claims paid amount plus claims outstanding at the end of the period minus claim outstanding at the beginning of the period respect of the entire group insured under the policy during the relevant period

The discount ranges from 5% (claims ratio not exceeding 60%) to 40% (claim ratio not exceeding 25%)

b) High claim ratio loading (Malus)

On the same basis of incurred claims ratio loading is applied to the renewal premium for adverse claims experience. The loading ranges from 25% (ratio between 80% and 100%) to 150% (ratio 176% to 200%). If the ratio is over 200% cover is reviewed.

3. Maternity expenses benefit extension

This is an optional cover which can be obtained on payment of a normal loading of 10% of the total basic premium for all the insured persons under the policy. **Total basic premium** means the total premium computed before applying:

- ✓ Group discount
- ✓ High claim ratio loading
- ✓ Low claim discount and special discount in lieu of agency commission

Option for maternity benefits has to be exercised at the inception of the policy period and no refund is allowable in case of insured's cancellation of this option during currency of the policy. It is to be appreciated that the amount of benefit allowable is within the policy sum insured. That is all, though the benefit is additional, no additional sum insured as such is allowed.

The maximum benefit normally allowable is up to Rs. 50000/- even where the sum insured opted by the member of the group, is higher.

The special conditions applicable to this extension are:

a) These benefits are admissible only if the expenses are incurred in hospital / nursing home as in-patients in India.

b) A waiting period of 9 months is applicable for payment of any claim relating to normal delivery or caesarean section or abdominal operation for extra uterine pregnancy. The waiting period may be relaxed only in case of delivery, miscarriage, or abortion induced by accident or other medical emergency.

c) Claim in respect of delivery for only first two children and / or operation associated therewith will be considered in respect of any one insured person covered under the policy or any renewal thereof. Those insured persons who already have two or more living children will not be eligible for this benefit.

d) Expenses incurred in connection with voluntary medical termination of pregnancy during the first 12 weeks from the date of conception are not covered.

e) Pre-natal and post-natal expenses are not covered unless admitted in hospital / nursing home and treatment is taken there.

Note: When group policy is extended to include maternity expenses benefit, the exclusion relating to pregnancy etc. stands deleted

4. Details of insured person

a) The insured is required to furnish a complete list of insured persons in the following format according to sum insured.

b) Any additions and deletions during the currency of the policy should be intimated to the company in the same format. However such additions and deletions will be incorporated in the policy from the first day of the following month subject to pro-rata premium adjustment.

c) No change of sum insured for any insured person will be permitted during the currency of the policy.

d) No refund of premium is allowed for deletion of insured person if he or she has recovered a claim under the policy.

S.No.	Sum Insured	Name of insured persons with their salary, roll no. or any such identification for employee / member of the insured	Relation of the dependant to the employee / member of the insured	Age	Sex	Pre-existing disease / injury to be excluded under the policy.
1						
2						
3						

Test Yourself 2

What step is most likely taken in case of adverse claim ratio for a group health policy?

I. All the claims beyond a certain value are rejected.
II. Loading is applied to renewal premium.
III. Policy is discontinued with immediate effect
IV. None of the above

C. Health insurance – Developments

1. Overview

a) New products are designed on the basis of customer segmentation. Policies are now available to cover students, families, senior citizens on both individual and on a floater basis.

b) Certain exclusions like dental treatment, pregnancy, AIDS etc are now under consideration by the new covers issued in the current scenario.

c) Individual family floater covers, where a single sum insured covers the whole family are now introduced by the companies, which were hitherto unavailable.

d) IRDA has ensured that insurers do not neglect the senior citizens of the country. Accordingly, companies have designed policies for the senior citizens aged above 60 years. Benefits of critical illness are also included in this cover.

e) Based on the size of the market, insurers are designing distributor specific policies for health. Many policies specially designed for account holders of banks, beneficiaries of Government subsidies etc. are available in the market.

f) Tailor made group health policies are designed for large groups. The special features include corporate buffer for specified diseases (This is an additional sum insured floating over all the members of the group if his family/individual sum insured is exhausted during the year), deletion of pre-existing diseases exclusions, deletion of waiting period in maternity extension, inclusion of new born from day one etc.

g) After the opening up of the market, some stand alone health insurers are into the market. These insurers deal with health insurance alone. Usually they have a direct interest with health service providers and hence provide more competition in the field of health insurance.

2. Third party administrators (TPA's)

A major development in the field of health insurance is the introduction of the third party administrator or TPA. "TPA" means a "Third Party Administrator" who, is licensed, and is engaged, for a fee or remuneration, by whatever name called as may be specified in the agreement with an insurance company, for the provision of health services.

Characteristics

a) They are independent entities who are appointed for processing and finalising health claims.

b) Third party administrators were introduced in the year 2001.

c) They are licensed and regulated by IRDA and mandated to provide health services.

d) The minimum capital and other stipulations to qualify as a TPA are prescribed by IRDA.

Thus health claims servicing are now outsourced by the insurers to the TPAs, at a remuneration of 6% of the premium collected.

Third party administrators enter into an MOU with hospitals or health service providers and ensure that any person who undergoes treatment in the network hospitals is given a cashless service. They are the intermediaries between the insurer(s) and the insured(s), who co-ordinate with the hospitals and finalise health claims.

Test Yourself 3

Third party administrators were introduced in the year __________.

I. 2000
II. 1999
III. 2001
IV. 2002

D. Health covers available in the market

1. Tertiary care insurance

Tertiary care insurance is a major ailments hospitalisation/domiciliary hospitalisation expenses reimbursement policy for individuals and group.

a) Coverage

The policy covers major ailments only listed under the following nine heads:

i. Nephritis of any aetiology plus bacterial renal failure requiring kidney transplant and dialysis

ii. Cerebral or vascular strokes

iii. Open and close heart surgery

iv. Malignancy diseases which are confirmed on histo-pathological report

v. Encephalitis (viral)

vi. Neuro surgery

vii. Total replacement of joints

viii. Liver disorder (Hepatitis B & C) associated with complications like cirrhosis of liver

ix. Grievous injury including multiple fractures of long bones, head-injury leading to unconsciousness, burns of more than 40%, injury requiring artificial ventilatory support plus vertebral column injury

b) Sum insured

It ranges from Rs.50, 000/- to Rs.5, 00, 000/-

c) Other features

The other features of the scheme are:

i. Policies can be issued for 1 year, 5 years or 10 years depending on the option exercised by the insured.

ii. For group policies the minimum number of persons would be 51 and only one group policy is to be issued covering all eligible members of the group. Unnamed policy cannot be issued.

iii. For long term group policies premium can be paid in instalments, two in case of 5 year policies and four in case of 10 year policies.

iv. Optional cover to cover boarding and lodging expenses in the hospital for one of the family members or next of kin of insured who accompanies insured during the hospitalisation period subject to payment of additional nominal premium

v. Hospitalisation and operation expenses are payable to the person donating the organ to the insured person during the course of organ transplant operation subject to availability of limits during the policy period

vi. Expenses incurred for ambulance within city limits at the time of admission to hospital and discharge from hospital

vii. Group discount and bonus/malus provisions are applicable for group policies. Cumulative bonus and health check-up provisions are applicable for individual policies.

viii. 5% discount on premium for existing policyholders of mediclaim policy, provided sum insured is for equivalent or higher S.I

ix. 10% family discount if spouse/dependent children/dependent parents are covered

x. Income tax benefits under Sec.80D not available

2. Critical illness/Dreaded diseases cover

The dreaded disease cover, which is popular in the western countries, has gained momentum in India. This is a **benefit policy**, wherein, the insured gets the sum insured in lump sum as a benefit, after ninety days of diagnosis of the named critical illnesses like cancer, renal failure, organ failure requiring transplantation, multiple sclerosis, coronary diseases etc. The patient does not have to produce evidence of taking treatment for the disease.

3. Cancer medical expense policy (Indian Cancer Society)

The insurance scheme came into effect from July, 1985 and was modified from 1st May, 1987 and is available to members of Indian Cancer Society.

The policy has been devised to provide financial cover for anybody who may be stricken by this malignant disease. New India Assurance has planned this cover meticulously, in consultation with medical experts from the Indian Cancer Society, to meet a long-felt socio-economic need.

In fact this particular cover offered by New India Assurance is unique in the sense that so far India is only the 3rd country in the world to provide it.

According to the agreement, anyone who wants to avail of this cover has to join the Indian Cancer Society. The only proviso being that, at the time of seeking the membership, the person concerned should not be a cancer patient or a potential cancer case. The policy comes into operation only after the first month of membership.

a) Benefits available

i. The cancer insurance policy offers you coverage of Rs.50, 000/- +5%.

ii. Additional sum insured up to Rs.75, 000 for every claim free renewal, an amount normally incurred by an individual or his family to fight this dreaded disease.

iii. The policy covers both the member and spouse regardless of whose name the membership is in.

iv. But once either of them contracts the disease the other would not be entitled for any benefits under the same policy.

v. However, he/she can always take another membership.

vi. The membership also gets a number of other benefits, chief amongst them being the facility of regular check-ups for cancer because early detection means an effective cure.

b) Membership categories

The Indian Cancer Society offers 4 types of membership as under

i. Annual membership:

- ✓ To be eligible for this policy, all one has to do is to become a well-wisher member of the Indian Cancer Society.
- ✓ For an annual fee of Rs.200/- and an entrance fee of Rs.75/- the well-wisher member is automatically entitled to the cancer insurance policy.

ii. Well-wisher **life membership** for a fee of Rs.3, 000/, a one-time payment

iii. **Corporate membership** (to cover 25 officers/employees of a company) for an annual fee of Rs.5, 000/ and entrance fee of Rs.2, 000/-

iv. **Ordinary membership** (which gives the member voting rights in the society's activities) for an annual fee of Rs.1, 000/ and entrance fee of Rs.500/-

c) Terms and conditions

i. A proposal form and a membership form will have to be completed by each proposer / member.

ii. The policy will come into operation only after a period of one month from the date or enrolment of the member, which is also the date of commencement of the insurance.

iii. The policy is valid for 12 months and each insured member has to pay the annual subscription of the society before its expiry.

iv. However, the renewal insurance will have no waiting period and the policy will operate immediately from its renewal date.

v. The cancer policy can be extended to cover two dependent children on payment of Rs. 50/- per child.

vi. The indemnity limit is Rs. 50000/- per child with cumulative bonus applicable to each child.

vii. Claim by one insured child does not affect liability under the policy in respect of the other child.

viii. The policy will not cease to be effective if there is a claim by one of the children.

ix. The policy covers only allopathic mode of treatment.

x. No claim will be entertained unless the diagnostic investigation reveals positive existence or presence of cancer.

d) Group policies (Group size exceeding 25 members)

It is possible to grant a policy on group basis. The employer has to arrange for a well-wisher corporate membership. A group discount would apply on membership fee as well as premium amount.

4. Cancer patients aid association

In 1994, CPAA introduced the cancer insurance policy in collaboration with New India Assurance Company. The policy is available to healthy individuals who have not suffered from cancer in the past.

a) Eligibility criteria

i. An individual wishing to take this policy must first undergo a mandatory free check-up at one of the CPAA's cancer detection centres.

ii. During the check-up, a physician, a general surgeon, a Gynaecologist and an E.N.T. surgeon will screen them.

iii. Basic blood tests and a Pap Smear test (for women) will be performed.

iv. If the individual is found to be symptom-less as per the screening procedure, they are then enrolled under the scheme of their choice from those listed below.

b) Conditions

i. The policy takes effect 30 days from the date of the medical check up.

ii. If a pre-cancerous condition is detected, the patient is kept as a follow up case, and enrolled in the scheme after treatment and recovery.

iii. In some cases additional tests may be necessary. Charges for first check-up will be reimbursed.

iv. If cancer is detected during the check-up, the policy will not be issued and the premium charged will be returned after deducting charges for any extra investigations conducted.

c) Benefits

The policy has many unique benefits. If a person is subsequently found to be suffering from cancer, reimbursement of expenses for treatment, hospitalisation, investigations related to cancer as specified in the policy document up to the insured amount will be made each year against bills submitted until the patient is considered cured or succumbs to the disease. All treatment has to be taken in India and must be allopathic in nature.

The policy also covers a free annual check-up at CPAA facilities. 80G certificate for 50% tax exemption will be provided. A cumulative bonus payable to the policy holder shall be increased by 5% on the sum assured for every year during which the policy has been in force prior to claim but this increase will not exceed 50% of the sum insured.

CPAA also undertakes to pay premiums in a timely manner before the expiry of the policy so that the policyholder holds a current policy at all times.

Whenever a claim is submitted, CPAA interacts with the patient on one hand and New India Assurance Company on the other hand to ensure that it is settled quickly. Since inception, 160 patients have made 606 claims. CPAA ensures that claim forms are completely filled in as required with the entire requisite supporting documents. CPAA also confirms that the bills are for cancer related treatment.

There is also a corporate policy, which is becoming increasingly popular among companies who make the cover available to their employees. Some 6500 members are participating in the scheme.

d) Corporate policy benefits

i. Discounts varying from 5-40% are offered to corporate clients depending on the total number of persons enrolling.

ii. The policy documents issued will be in the name of the company. A list of persons covered under the policy will be attached. (No individual certificates will be handed out.) Adjustments against resignations will be made.

iii. Screening centres are present at different cities in the country to facilitate easy enrolment and accommodate transfers of employees.

iv. If more than 50 people are present on site then a special team will visit the work place and conduct the check-up there (valid for Mumbai only).

v. Discount rates offered: Based on the size of the group, discounts in premium are offered.

Test Yourself 4

Pick the correct statement with regards to Cancer Medical Expense policy (Indian Cancer Society).

I. It is available to anyone who is a member of Indian Cancer Society.
II. It is available to anyone
III. It is available to anyone who is a member of Indian Cancer Society and not a cancer patient/potential cancer patient at inception.
IV. None of the above.

E. Health covers for the social sector

1. Jan Arogya Bima Policy

a) This policy is designed to provide cheap medical insurance to poorer sections of the society.

b) The coverage is along the lines of the individual mediclaim policy except that cumulative bonus and medical check-up benefits are not included.

c) The policy is available to individuals and family members.

d) The age limit is 5 to 70 years.

e) Children between the age of 3 months and 5 years can be covered provided one or both parents are covered concurrently.

f) The sum insured per insured person is restricted to Rs.5000/- and the premium payable as per the following table.

Table 2.1

Age of the person insured	**Up to 46 years**	**46-55**	**56-65**	**66-70**
Head of the family	70	100	120	140
Spouse	70	100	120	140
Dependent child upto 25 years	50	50	50	50
For family of 2+1 dependent child	190	250	290	330
For family of 2+2 dependent children	240	300	340	380

g) Premium qualifies for tax benefit under Section 80D of the Income Tax Act.

h) Service tax is not applicable to the policy.

2. Universal Health Insurance Scheme (UHIS)

This policy will be available to groups of 100 or more families. In recent times even individual UHIS Policies were made available to the public.

a) Benefits

i. Medical reimbursement

The policy provides reimbursement of hospitalisation expenses up to Rs.30, 000/- to an individual /family subject to the following sub limits.

Table 2.2

Particulars	Limit
Room, boarding expenses	Up to Rs.150/- per day
If admitted in ICU	Up to Rs.300/- per day
Surgeon, Anaesthetist, Consultant, Specialists fees, Nursing expenses	Up to Rs.4,500/- per illness/ injury
Anaesthesia, Blood, Oxygen, OT charges, Medicines, Diagnostic material & X-Ray, Dialysis, Radiotherapy, Chemotherapy, Cost of pacemaker, Artificial limb, etc.	Up to Rs.4,500/- per illness/ injury
Total expenses incurred for any one illness	Up to Rs. 15,000/-

ii. Personal accident cover

Coverage for death of the earning head of the family (as named in the schedule) due to accident: Rs.25, 000/-.

iii. Disability cover

If the earning head of the family is hospitalised due to an accident / illness compensation of Rs.50/- per day will be paid per day of hospitalisation up to a maximum of 15 days after a waiting period of 3 days.

iv. Premium

Table 2.3

Entity	Premium
For an individual	Rs.365/- per annum
For a family up to 5 (including the first3 children)	Rs.548/- per annum
For a family up to 7 (including the first 3 children and dependent parents)	Rs.730/- per annum
Premium subsidy for BPL families	For families below the poverty line the Government will provide a premium subsidy.

3. Rashtriya Swasthya Bima Yojana (RSBY)

RSBY has been launched by the Ministry of Labour and Employment, Government of India, to provide health insurance coverage for the below poverty line (BPL) families. The objective of RSBY is to provide protection to BPL households from financial liabilities arising out of health shocks that involve hospitalisation.

a) Features

i. Total sum insured of Rs 30, 000 per BPL family on a family floater basis

ii. Pre-existing diseases to be covered

iii. Coverage of health services related to hospitalisation and services of surgical nature which can be provided on a day-care basis

iv. Cashless coverage of all eligible health services

v. Provision of smart card

vi. Provision of pre and post hospitalisation expenses

vii. Transport allowance @ Rs.100 per visit

viii. Beneficiaries need to pay only Rs. 30/- as registration fees. Central and State Government pay the premium to the insurer

ix. Insurers selected by the State Government on the basis of a competitive bidding

x. Choice to the beneficiary between public and private hospitals

xi. Premium to be borne by the Central and State governments in the proportion of 3:1. Central Government to contribute a maximum amount of Rs. 565/- per family

xii. Contribution by the State Governments: 25% of the annual premium and any additional premium beyond Rs 750

xiii. Beneficiary to pay Rs. 30 per annum as registration fee/ renewal fee

xiv. Administrative cost to be borne by the State Government

xv. Cost of smart card additional amount of Rs.60 per beneficiary would be available for this purpose

xvi. The scheme shall commence operation from the first of the month after the next month from the date of issue of smart card. Thus, if the initial smart cards are issued anytime during the month of February in a particular district, the scheme will commence from 1st of April

xvii. The scheme will last for one year till 31st March of next year. This would be the terminal date of the scheme in that particular district. Thus, cards issued during the intervening period will also have the terminal date as 31st March of the following year.

b) Claim settlement

Claim settlement to be done through TPA's mentioned in the schedule or by the insurance company. To be made cashless as far as possible through listed hospitals.

c) Other features

Any one illness will be deemed to mean continuous period of illness and it includes relapse within 60 days from the date of last consultation with the hospital.

d) Age limits

This policy covers people between the ages of 3 months to 65 years.

Note: Family means earning head, spouse and up to maximum of three dependent children. Dependent parents can also be included.

4. Bhavishya Arogya Policy

This was a deferred Mediclaim policy, introduced on 1.12.90 to cater to the medical care of retired persons. It is no longer in use in the market. The policy was a failure due to many reasons. However, students should know the features of this policy which otherwise was an excellent product.

The policy reimburses medical, surgical expenses following illness / accidental injury, incurred by the insured person during his 'retirement' age as defined in the policy.

The policy could be taken at any age from 25 years onwards up to 55 years. Retirement age to be selected by insured at the time of taking the policy, to be between 55 and 60 years.

a) Salient features

i. The amount of maximum total benefit available under the basic policy was Rs.50000/- during the lifetime of the insured commencing from the policy retirement age and shall not exceed Rs. 20000/- per any one illness or injury.

ii. The coverage under the policy was, more or less, the same as under Mediclaim policy.

iii. The definitions of hospital / nursing home, 'any one illness', medical practitioner etc. exclusions and policy conditions are the same except for the following differences:

- ✓ Pre and post hospitalization were not covered under the policy.

iv. The following exclusions of the Mediclaim policy do not appear in the policy:

- ✓ 30 days waiting period
- ✓ First year exclusions
- ✓ Pre-existing diseases
- ✓ Circumcision, pregnancy etc
- ✓ Cost of health check up

b) Terms involved

i. Policy retirement age

- ✓ Means the age selected by the insured at the time of signing the proposal and specified in the schedule for the proposed commencement of benefit in the policy.

- ✓ The policy retirement age could not be advanced due to any cause during the pre-retirement period.

ii. Pre-retirement period

Means the period commencing from the date of acceptance of the proposal and ending with the policy retirement age specified in the schedule during which the insured shall be paying instalment / single premium deposit as applicable.

iii. Proof of age

- ✓ Completed number of years will be considered for the purpose of age.

- ✓ Birth certificate, school certificate or any other certificate giving proof of age to be submitted at the time of entry which will be valid throughout pre-retirement and post-retirement period

iv. Payment of premium

- ✓ The scheme provided for payment of insurance premium in easy annual instalments commencing from any selected date between 25 years and 55 years and ending with the attainment of selected age of retirement i.e. between 55 years and 60 years.

- ✓ The date of payment of the first instalment premium shall signify the commencement of pre-retirement period and each annual instalment premium deposit up to the retirement age shall be paid on or before the due date.

- ✓ It was necessary to have minimum interval of four years between age at entry and policy retirement age.

- ✓ The scheme also provided for payment of entire premium in one single instalment and even in that case there should be a minimum interval of four years between age of entry and policy retirement age.

v. Grace period

- ✓ A grace period of 30 days was allowed in regard to payment of annual instalments of premium deposit.

- ✓ If payment was delayed beyond the grace period additional premium was charged at the rate of 1% per month or part thereof a maximum period of six months including grace period of 30 days.

- ✓ If premium instalments were not received within the maximum period of 6 months, the policy automatically lapsed and it would qualify for refund on demand at prescribed scale.

vi. Refund of premium

- ✓ The scheme allowed a suitable refund of premium already paid in the event of premature death of the insured as per prescribed scale.

- ✓ In case of voluntary withdrawals from the scheme refund was allowed to the extent of 75% of the refund payable on death.

- ✓ After commencement of risk at policy retirement age selected by insured, provision was also made for refund at appropriate scale, in case of death provided no claim was preferred.

- ✓ Similarly in case of voluntary withdrawals from the scheme refund was allowed to extent of 75% of refund payable on death, provided no claim was preferred.

vii. Risk commencement date

- ✓ The risk commences from the date on which the last instalment premium is paid.

- ✓ In case the last instalment of premium is not paid on the due date, maximum grace period allowable will be six months without charging additional premium but the risk will commence only from the date of payment of the last instalment.

- ✓ After expiry of six months from the due date of the last instalment, the policy will be treated as lapsed and necessary refund of premium deposit will be allowed to the insured as per the table of refund.

viii. Special / Extra benefits

- ✓ The insured could increase the amount of benefit any time prior to four years of retirement age specified in the policy by additional units of Rs.10000/- each.

- ✓ Premium payable for such unit shall be at the rate of 20% of the basic premium applicable for the relevant age at which such additional units opted for.

- ✓ No pre insurance medical examination is required

- ✓ Advancement / postponement of retirement age is not permissible

- ✓ The scheme provides for assignment

- ✓ Premium payable will be eligible for exemption under Income Tax Act 80D.

c) Group scheme

i. Group scheme was also available to corporate bodies where hospitalisation and domiciliary hospitalisation was offered to employees in case employer-employee relationship existed.

ii. A flat discount of 15% was offered to group size exceeding 50 in number.

5. Conclusion

It is important to note that insurers are experimenting with different forms of health insurance covers to suit every customer segment. It is important for the candidates to keep themselves abreast of the latest developments, especially the products offered by stand alone health insurers.

Test Yourself 5

Choose the correct statement

I. RSBY is a life insurance policy launched by the Govt. of India
II. RSBY has been launched by the Ministry of Labour and Employment, Government of India, to provide health insurance coverage to BPL families.
III. Pre-existing diseases are not covered under RSBY.
IV. None of the above

Summary

a) Health insurance policy provides for reimbursement of hospitalisation/domiciliary hospitalisation expenses for illness / disease suffered or accidental injury sustained during the policy period.

b) The normal exclusions under health policies include pre-existing diseases, expenses on treatment of diseases such as Cataract, war and kindred perils etc.

c) The insured shall be entitled to reimbursement of medical check up once in every four underwriting years subject to no claim preferred during this period.

d) The sum insured normally available varies from Rs. 50000/- up to a maximum of Rs. 500000/- Many Companies now grant cover upto a SI of Rs. 10 lacs.

e) The proposal form elicits information related to personal, medical and occupational aspects of the individual.

f) Group Mediclaim is available to any group / association / institution corporate body provided it has a central administration point and subject to a minimum number of persons to be covered.

g) Group discount is allowed according to scale, depending upon the total number of insured persons covered under the group policy at the inception of the policy.

h) The insured is required to furnish a complete list of insured persons in the prescribed format.

i) A major development in the field of health insurance is the introduction of the "Third Party Administrator" or TPA.

j) Various healthcare insurance covers such as tertiary care insurance, critical illness/dreaded diseases cover and cancer medical expense policy (Indian Cancer Society) etc. are available in the market.

k) Jan Arogya Bima policy, Universal Health Insurance scheme and Rashtriya Swasthya Bima Yojana are some of the social healthcare schemes.

Answers to TestYourself

Answer 1

The correct option is III.

Cosmetic surgery for beautification purpose is not covered under health insurance policies.

Answer 2

The correct option is II.

In case of adverse claim ratio for a group health policy loading is applied to renewal premium.

Answer 3

The correct option is III.

Third party administrators were introduced in the year 2001

Answer 4

The correct option is III.

Cancer Medical Expense policy (Indian Cancer Society) is available to anyone who is a member of Indian Cancer Society and not a cancer patient/potential cancer patient at inception.

Answer 5

The correct option is II.

RSBY has been launched by the Ministry of Labour and Employment, Government of India, to provide health insurance coverage to BPL families.

Self-Examination Questions

Question 1

The term Medical Practitioner would not include ____________.

I. Physician
II. Specialist
III. Surgeon
IV. Nurse

Question 2

Which of the following is not a condition in a mediclaim policy?

I. All notices under the policy shall be in writing.
II. Final claim with supported documents should be submitted to the company/TPA within 30 days from the date of completion of treatment.
III. Differences regarding the amount of claim can't be referred to arbitration.
IV. None of the above.

Question 3

In case of group health policy, maternity expenses benefit extension cover ________.

I. Is not available
II. Is available at no extra cost
III. Needs to be availed at inception for a refundable additional premium
IV. Needs to be availed at inception for a non-refundable additional premium

Question 4

Tertiary care insurance covers hospitalisation expenses under which of the following heads?

I. Cerebral or Vascular strokes
II. Cataract
III. Hypertension
IV. None of the above

Question 5

The Indian Cancer Society offers __ types of memberships under Cancer Medical Expense policy.

I. 1
II. 2
III. 3
IV. 4

Answers to Self-Examination Questions

Answer 1

The correct option is IV.

The term Medical Practitioner would not include Nurse.

Answer 2

The correct option is III.

Differences regarding the amount of claim can be referred to arbitration in case of mediclaim policies.

Answer 3

The correct option is IV.

In case of group health policy, maternity expenses benefit extension cover needs to be availed at inception for a non-refundable additional premium.

Answer 4

The correct option is I.

Tertiary care insurance covers hospitalisation expenses under Cerebral or Vascular strokes.

Answer 5

The correct option is IV.

The Indian Cancer Society offers 4 types of memberships under Cancer Medical Expense policy

CHAPTER 3

OVERSEAS HEALTH POLICY

Chapter Introduction

One of the most important things when relocating/travelling overseas is making sure you have a proper and comprehensive overseas health policy. The chapter explores the various products available in India. The chapter discusses the Videsh Yatra Mitra policy with respect to the features, coverage offered, terms and conditions involved and the period insured. We then look at the Employment and Study policy designed for Indian citizens temporarily posted abroad in a sedentary non-manual work or students prosecuting studies or engaging in research activities abroad. Finally we understand the Destination India policy meant for overseas travellers visiting India.

Learning Outcomes

A. Videsh Yatra Mitra
B. Employment and Study policy
C. Destination India policy

Look at this Scenario

Around the world in 80 days

Samit has been looking forward to once in a lifetime trip around the world and planning a whole lot of things like:

- ✓ Which places to visit?
- ✓ What to see?
- ✓ Things to shop for, people to meet etc.

It is understandable to be all excited about your maiden foreign trip but a little extra planning will certainly go a long way in making the experience truly enjoyable. Samit in this case has completely forgotten about overseas health insurance.

Travelling in a foreign land entails a lot of risk. Medical expenses in foreign currency coupled with hospitalisation can be burn a big hole in your pocket souring the experience for you. An overseas health policy covers you for all such eventualities for just a fraction of the amount you would otherwise need. Healthcare is a very important subject, do not underestimate it.

A. Videsh Yatra Mitra

1. Overseas health policies - Introduction

This policy was originally introduced in 1984 to provide payment of medical expenses in respect of illness suffered or accident sustained by Indian residents during their overseas trips for official or holiday purpose. This policy with some modifications is also available on an annual basis to frequent travellers.

The insurance scheme, since 1984 has been modified from time to time to provide for additional benefits such as in-flight personal accident, loss of passport etc. In 1991, Employment and Study policy was introduced. This policy is meant for Indian citizens temporarily working or studying abroad.

With effect from 1st January 1998, the cover was further amended. The policy is also known as Videsh Yatra Mitra Policy. Insurers have their own design of products offered to cover overseas mediclaim. The details given under are indicative and not exhaustive.

The overseas medical schemes are available in different plans from A to H.
(A complete chart is given later in the chapter)

2. Eligibility

The policy is available to:

a) Indian Residents undertaking bonafide trips abroad for:

- ✓ Business and official purposes
- ✓ Holiday purpose

b) Accompanying spouse and children of the person who is going abroad will be treated as going under holiday travel.

c) Foreign nationals working in India for Indian employers of multi-national organisation getting their salary in Indian Rupees, covering their official visits abroad provided they are undertaken on behalf of their employers.

3. Age limit

a) For adults up to 70 years

b) Cover beyond 70 years is permissible with loading in premium at the discretion of insurance company.

c) For children above 6 months

d) Children between the ages of 6 months to 5 years are covered by excluding certain specific diseases peculiar to children like measles, whooping cough.

4. Videsh Yatra Mitra

We examine the Videsh Yatra Mitra policy which provides a wide cover. The policy is designed for persons going abroad for business or holiday.

In order to understand how the policy operates it is necessary to understand the following definitions.

a) Important terms

i. **Insured person** is that person named in the policy schedule, for whom the appropriate premium has been paid.

ii. **Claim settlement agency** is an overseas agency with which insurers have entered into an MOU to provide emergency assistance and claims administration services.

iii. **Medical advisors** are medical practitioners appointed by the relevant ‘agency’.

iv. **Physician** means a person legally qualified to practice in medicine or surgery including other legally qualified medical practitioners duly licensed by their respective jurisdiction and such person is not a member of the insured person's family.

v. **Medical related expenses reasonably and necessarily incurred** means expenses that in the opinion of the treating Physician and 'Agency' are medically necessary in order to maintain life and/or relieve immediate pain or distress for illness/disease/accident first manifested/occurring during the period of insurance.

vi. **Loss of eye** means the total and irrecoverable loss of sight from one or both eyes.

vii. **Loss of limb** means the loss of a hand or foot by permanent physical severance at or above the wrist or ankle including total and permanent loss of use of hand or foot.

viii. **Checked baggage** means the baggage handed over by the insured person and accepted by an airline for an International flight for transportation in the same aircraft as the insured person and for which the airline has provided a baggage receipt.

ix. **Valuables** means photographic, audio, video, computer, telecommunications and electrical equipment, telescopes binoculars, spectacles, sunglasses, antiques, watches, jewellery, furs and articles made of precious stones and metals.

b) Period of insurance

The insurance is valid from the first day of insurance and expires on:

i. The last day of the number of days specified in the Overseas Mediclaim Policy schedule or

ii. On return on India whichever is earlier.

Extension of the period of insurance is automatic for the period not exceeding 7 days, and without extra charge, if necessitated by delay of public transport services beyond the control of the insured person.

c) Coverage

Section A – Personal accident

i. This insurance will pay up to the limit as shown in the schedule if the insured person sustains bodily injury during the covered trip caused solely and directly by accidental external violent and visible means and such bodily injury within 12 months of the date of the injury is the sole and direct cause of death or loss of eye(s) or limb(s).

ii. Not more than US $ 2,000 in respect of death if the insured person's age is under 16

Section B – Medical expenses and repatriation

i. This insurance will pay up to the limit of cover shown in the schedule in total for the insured person in respect of covered medical related expenses, reasonably and necessarily incurred outside the Republic of India by the insured person suffering bodily injury, sickness, disease or death during the period of insurance.

ii. If the claim settling agency recommends that continuing the treatment in India is appropriate, the policy is extended to cover medical expenses incurred in India as specified in covered expenses, provided that expenses will only be paid at the usual and customary level for such services, and further provided that expenses will only be paid for treatment incurred within the 90 day period immediately following the first manifestation of bodily injury, sickness or disease.

Covered expenses	Specific conditions
Expenses for physician services, hospital and medical services and local emergency medical transportation.	No claim will be paid in respect of expenses for treatment which could reasonably be delayed until the insured person's return to the Republic of India. The question of what can or what cannot be reasonably delayed will be decided jointly by the treating physician and the medical advisors.In other words, the coverage is restricted to emergency medical expenses
Up to US $ 225 per occurrence for dental services for the immediate relief of dental pain only. However, dental care necessary as a result of a covered accident shall be subject to the limit of cover and deductible.	No claim in respect of cosmetic surgery will be paid, unless such cosmetic surgery is rendered necessary as a result of a covered accident.

Expenses for physician ordered emergency medical evacuation, including medically appropriate transportation and necessary medical care en route, to the nearest suitable hospital when the insured person is critically ill or injured and no suitable local care is available, subject to the prior approval of the medical advisors.	No claims will be paid in respect of routine physical examination or any other examination where there is no objective indication of impairment of normal health.
In extreme emergencies in remote areas where 'Agency' cannot be contacted, the medical evacuation must be reported to the first available physician and the nearest Indian Consulate.	No claim will be paid in respect of medical treatment and related services obtained within India except as stated under covered expenses.
Expenses for medical evacuation, including transportation and medical care en route to a hospital in India or the insured person's normal place of residence in India when deemed medically advisable by the medical advisors and the attending physician.	The insurance will not cover pregnancy of the insured person including resulting childbirth, etc. miscarriage abortion or complication of any of these.
If the insured person dies outside India, the expenses for preparing the air transportation of the remains for repatriation to India or up to an equivalent amount for a local burial or cremation in the country where the death occurred. All expenses must be approved by Agency before the remains are prepared for transportation to India or for local burial or cremation.	Restricted Cover: In the event that the proposer is unable to present himself or herself for medical examination when called for by the insurance company, the limit of indemnity under this insurance is reduced to US $ 10,000 in respect of and limited to the expenses for physician services, hospital physician and medical services and local emergency transportation. Such limit applies to medical expenses incurred through illness or disease only.

Section C – Loss of checked baggage

This insurance company will pay up to the limit of cover shown in the schedule in the event of the insured person suffering a total loss of baggage that has been checked by an international airline for an international flight. The insurers reserve the right to replace or pay the intrinsic value of any lost article.

Specific conditions

i. The amount payable in respect of any one article, pair or set is limited to the amount stated in the schedule.

ii. A property irregularity report (PIR) must be obtained from the airline immediately upon discovering the loss which must be submitted to 'Agency' in the event of a claim hereunder.

iii. No partial loss or damage shall become payable. Total loss or damage of an individual unit(s) of baggage shall not be construed as falling within this exclusion.

iv. No claim will be paid for items valued in excess of US $ 100 without proof of ownership. Such proof shall be presented to 'Agency' in the event of a claim hereunder.

v. No claim will be paid for valuable items as defined. Such items should at all times be carried by the insured person and not packed as part of checked baggage.

vi. Any recovery from an airline under the terms of the Warsaw Convention shall become the property of insurers. (Subrogation).

Section D – Delay of checked baggage

This insurance will pay up to the limit of cover shown in the schedule for the necessary emergency purchase of replacement items in the event that the insured person suffers a delay of more than 12 hours from the scheduled arrival time at the destination for delivery of baggage that has been checked by an international airline for an international outbound flight from India.

Specific conditions

i. A non-delivery certificate must be obtained immediately from the airline which must be submitted to 'Mercury' in the event of a claim.
ii. Proof of purchase must be provided for all items reimbursed under this section.
iii. Any payment under section D shall be offset against any claim which ultimately becomes payable under section C.

Section E – Loss of passport

This insurance will pay up to the limit of cover shown in the schedule for the reimbursement of actual expenses necessarily and reasonably incurred by the insured person in connection with obtaining a duplicate or fresh passport.

No claim will be paid that is less than the deductible stated in the schedule. The deductible shall apply to each insured event and shall be borne by the insured person.

No claims shall be paid for:

i. Loss or damage to passport due to delay or from confiscation or detention by customs, police or other authority.

ii. Theft which is not reported to any appropriate police authority within 24 hours of discovery and an official report obtained.

iii. Loss or theft of passport left unattended by the insured person unless located in a locked hotel room or apartment and an appropriate sized safety deposit box was not available for use by the insured person.

Section F – Personal liability

This insurance will pay up to the limit of cover shown in the schedule if the insured person in his or her private capacity becomes legally liable to pay for accidental bodily injury to third parties or accidental damage to third party property, arising from an incident during the covered trip.

Specific conditions

i. No claims will be paid for amount that is less than the deductible stated in the schedule. However, the deductible shall only apply to claims in respect of third party property damage.

ii. No claims shall be paid arising from employers or contractual liability.

iii. No claims shall be paid arising from liability to any members of the insured person’s family, travelling companion, friend or colleague.

iv. No claims shall be paid for any liability arising directly or indirectly from or due to:

- ✓ Animals belonging to the insured person or in their care, custody or control
- ✓ Any wilful, malicious or unlawful act
- ✓ Pursuit of trade, business or profession, employment or occupation

- ✓ Ownership, possession or use of vehicles, aircraft watercraft, parachuting, hand gliding, hot air ballooning or use of firearms
- ✓ Legal costs of any proceedings that result from any criminal or illegal act
- ✓ Insanity, the use of any alcohol, drugs (except as medically prescribed) or drug addiction
- ✓ The supply of goods or services
- ✓ Any form of ownership or occupation of land or buildings (other than occupation only of any temporary residence).

d) General exclusions (All Sections)

No claim will be paid:

i. In respect of a medical condition that was known by the insured person to exist and/or he had been treated for the condition in the one year immediately preceding the effective date of the policy

ii. Where the insured person:

- ✓ Is travelling against the advice of a physician; or
- ✓ Is on waiting list for specified medical treatment; or
- ✓ Is travelling for the purpose of obtaining medical treatment; or
- ✓ Has received a terminal prognosis for a medical condition

iii. Suicide, attempted suicide, wilful self-inflicted injury, venereal disease or abuse of drugs or alcoholic drinks

iv. In respect of medical services obtained within India

v. Arising from the insured taking part in naval, military or air force operations

vi. Arising from war, invasion or civil war and nuclear risk

vii. Arising from aviation except where the insured flies as a passenger in an aircraft properly licensed to carry passengers

viii. Arising from participation in the inter-scholastic or professional sports events or other hazardous sports

ix. Where there is another insurance covering the same interest e.g. health insurance, any occupational benefit plan, national health insurance scheme or public assistance programmes, except in excess of the benefit under such plan, insurance or scheme.

e) General conditions applicable to all sections

The conditions below apply throughout this insurance. Failure to comply with them may be prejudicial to a claim.

i. The policy will be valid only if the insured journey commences within 14 days of the first day of insurance as indicated in the policy schedule.

ii. Cancellation of the policy may be done ONLY in cases where a journey is not undertaken and ONLY on production of the insured person's passport as a proof that the journey has not been undertaken. Any request for cancellation will be entertained not less than 14 days after the first day of insurance as indicated in the policy schedule. Such cancellation will be subject to deduction of cancellation charge by the underwriters as applicable.

iii. It is a condition precedent to liability hereunder that in the event of any occurrence likely to give rise to a claim under this insurance, that the insured person, or his representative, must notify the claim settling agents immediately. The insured Person or his representative should quote to claim settling agents as much information concerning the illness, accident or occurrence as is available, including the name of the treating doctor, name and telephone number of the hospital, the policy number and its date of issue.

iv. For non-emergency claims, claim settling agents should be contacted upon return to the Republic of India and a claim form obtained. This document, together with invoices, travel documents and any other relevant details must be sent to claim settling agents, clearly stating under which section of this policy a claim is being made. If medical treatment has been received, medical certificates showing the nature of the injury or illness together with all bills, and receipts if already paid, should be forwarded to claim settling agents. In no event should a claim be notified to claim settling agents later than 31 days after the end of an insured trip.

v. Insurers shall be fully and completely subrogated to the rights of the insured person against parties who may be liable to provide indemnity or make a contribution in respect of any matter which is the subject of a claim under this insurance.

vi. The insurers may approach any physician who may have treated the insured person, and the insured must co-operate in this respect.

vii. No person shall admit liability or make any offer or promise of payment without the express written consent of the insurers.

viii. The insured person shall take all reasonable and proper care to safeguard against accident or illness or loss of or damage to his property, as if this insurance was not in force.

ix. The insured person may not transfer his interest in this insurance. However, the legal representatives of the insured person shall have the right to act for the insured person who is incapacitated or deceased.

x. This insurance does not operate beyond a period of 180 days of continuous absence from India unless specifically agreed by insurers.

xi. This policy and the schedule shall be read together as one contract and any wording or expression to which a specific meaning has been attached in any part of the policy and schedule shall bear such specific meaning where ever it may appear.

f) Dispute resolution clause and procedure

This contract of insurance includes the following dispute resolution procedure which is exclusive and a material part of this contract of insurance.

i. Nature of coverage

- ✓ This policy is not a general health insurance policy.
- ✓ Coverage under the medical expense section of this insurance is intended for use by insured person in the event of a sudden and unexpected sickness or accident arising when the insured is outside India.

ii. Pre-existing exclusion

This policy is not designed to provide an indemnity in respect of medical services, the need for which arises out of a pre-existing condition.

iii. Pre-existing condition

Any sickness for which insured person has sought medical advice or has taken medical treatment in the preceding 12 months prior to the commencement of travel.

iv. Prior consultation

Any medical services or series of services with a cost of greater than US $ 100 shall not be covered by this policy unless the insured person consults with claim settling agents.

v. Choice of Law

The parties to this insurance policy expressly agree that the laws of India shall govern the validity, construction, interpretation and effect of this policy.

vi. Arbitration

- ✓ Any claim, controversy, or dispute of any kind or nature under this contract of insurance shall be by arbitration in India in accordance with the provisions of the Indian Arbitration Conciliation Act, 1996 as amended from time to time.

- ✓ The submission to arbitration or any dispute of controversy arising out of this condition shall be precedent to any legal or equitable action or proceeding of any nature.

vii. Any claim under this policy that is fraudulent, or if fraudulent means are used to secure payment of benefits under this policy, then such action shall render this policy null and void and all claims hereunder shall be forfeited.

viii. No sum payable under this policy shall carry interest.

ix. In the event of the insured person's death, insurers shall have the right to carry out a post mortem at their expense.

x. Any claim which has not been conclusively proven and the amount thereof substantiated shall not be payable.

g) Plans

Plans A, B and E are standard covers. The table illustrates the same

Plan A	(Worldwide travel excluding U.S.A. and Canada)
Plan B	(Worldwide travel including U.S.A. and Canada)
Plan E	(Corporate frequent travellers, Worldwide including U.S.A. and Canada)

Limits (U.S. $)

	Plan A	Plan B	Plan E	Deductible (A/B/E)
Illness /Accident	50,000	1,00,000	1,00,000	100
In flight Accident	10,000	10,000	10,000	Nil
Loss of Passport	150	150	150	30

Plans F, G, and H are Videsh Yatra Mitra covers which provide wider cover and higher limits

Plan F	(Worldwide travel excluding U.S.A. and Canada)
Plan G	(Worldwide travel including U.S.A. and Canada)
Plan H	(Corporate frequent travellers, Worldwide including U.S.A. and Canada)

Limits (U.S. $)

	Plan F	**Plan G**	**Plan H**	**Deductible (F/G/H)**
Illness /Accident	2,50,000	5,00,000	5,00,000	100
Personal Accident	25,000	25,000	25,000	Nil
Loss of Checked Baggage	1,000	1,000	1,000	Nil
Delay of Checked Baggage	100	100	100	12 hours
Loss of Passport	250	250	250	30
Personal Liability	2,00,000	2,00,000	2,00,000	200

Subsequently, the PSU's introduced few more plans to the Overseas Mediclaim Scheme.

E.g. Plan K, which includes all Asian Countries excluding Japan.

5. Proposal form

In addition to the usual details, the proposal form (**Part I**) elicits the following information.

- ✓ Age – Type of Plan – Passport number
- ✓ Name, address, registration number of the usual physician
- ✓ Countries to be visited, purpose of trip, proposed date of departure, number of days of stay abroad

Part II B of the form elicits detailed information on the proposer's medical condition and medical history

Note: If the answers indicates adverse condition, part II A has to be completed by an M.D. and accompanied with ECG, urine stripe Test report etc.

Declaration

The declaration in the form includes consent to the insurer, service providers and / or their program medical advisor to seek medical information from any doctor who has attended the proposer.

The proposer further declares as follows:

- ✓ I will not be travelling against the advice of a physician
- ✓ I am not on waiting list for any medical treatment
- ✓ I will not be travelling for the purpose of obtaining medical treatment
- ✓ I have not received a terminal prognosis for a medical condition before this day

Note: Medical report is also required if the proposer is travelling to:

- ✓ North America and is above 40 years or
- ✓ Any other countries and is above 60 years

The above stipulations are company specific and insurers may impose conditions based on their underwriting policy

6. Premium

a) The premium depends upon age, duration of stay and the type of plan selected.

b) It could either be calculated on trip band basis or on the number of days exactly calculated.

7. Corporate frequent traveller's endorsement

This is an annual cover granted to officials of corporate registered under the Companies Act, who are regularly travelling abroad. This cover is also made available to partners of registered firms.

The following endorsement is attached to the usual policy:

a) Notwithstanding anything contained herein to the contrary this insurance is valid in respect of trips undertaken during the 12 months following the date of purchase as stated in the schedule, subject to the total number of days of insured travel not exceeding 180 days in all in the 12 months and the duration of any one trip not exceeding 60 days.

b) In the event of the total number of days of insured travel exceeding 180 days before expiry of the policy the limit of cover shall stand reduced by 5 percent per day for each day beyond 180 days up to the limit of US $ 10,000, unless prior notification is provided to the insurance Company.

c) In the event that the insured person is travelling outside India on the last day of insurance the cover hereunder shall extend to include duration of the trip until his return to India within 60 days of the expiry of date.

d) It is understood and agreed that the cover is granted under this endorsement is always subject to the insured person advising the insurance company of any material change in his health condition. All other terms and conditions remain unaltered.

e) The age limit is 60 years and no medical reports are required. A flat premium is charged. Proposers aged 61 to 70 have to submit a medical report and the premium is loaded by 100%.

Test Yourself 1

In case of Videsh Yatra Mitra insurance is valid from _________.

I. 1st day of insurance
II. 7th day of insurance
III. 14th day of insurance
IV. 21st day of insurance

B. Employment and Study policy

1. Introduction

The policy is designed for Indian citizens temporarily posted abroad in a sedentary non-manual work or students undertaking studies or engaging in research activities abroad.

The salient features of the scheme are:

a) Age limit: 18 to 60 years

b) Limit of liability: U.S. $ 75,000/- any one insured person and in all any one period of insurance.

c) Deductible: Applicable

2. Plans

Plan C	(Worldwide travel excluding U.S.A. and Canada)
Plan D	(Worldwide travel including U.S.A. and Canada)

3. Premium

a) The premium for the policies issued to the executives of corporate clients for employment purposes will be paid in foreign currency.

b) The premium for students going abroad for higher studies will be paid in Indian Rupees.

c) The premium varies according to the age group 18-40 and 41-60 and the type of plan.

d) The same rate applies to accompanying spouse but a lower rate is charged for child under 18 years.

e) For students premium varies according to the type of plan.

4. Benefits

The benefits are divided into 2 sections

Section I

a) Sub-section A

Medical expenses incurred in respect of disease / injury contracted / sustained during the policy period limited to maximum period of:

- ✓ 52 weeks after the onset of injury / sickness or
- ✓ 12 weeks after the expiration date of the insurance (whichever is earlier).

b) Sub-section B

If the insured person is evacuated to India the insurers will pay medical, accident and sickness expenses in India, as provided under Sub-section A above and in addition but within the overall limit of US $ 75,000.

c) Sub-section C

Repatriation and alternative expenses

In the event of the death of an insured person, the insurers will pay the actual expenses for preparation and transportation to India of the remains of the insured person or funeral expenses incurred in the country of posting, not exceeding US $ 8,000 in total.

d) Sub-section D

Medical emergency reunion expenses up to US $ 5,000/- in all when as a result of a covered injury or covered sickness insured person is hospitalised and it is agreed by all parties that the insured person shall be medically evacuated to India as soon as possible, insurer will pay upon the recommendation and prior approval of the claims administrator the following expenses incurred in respect of travel by the mother or father or guardian or spouse.

i. The cost of an economy air ticket for one person from India to the airport serving the area where the insured person is hospitalised and return to India.

ii. Reasonable travel and accommodation expenses incurred in relation to emergency reunion.

Provided the insured person:

i. Is due to be medically evacuated under the terms of this policy within 5 days of commencement of travel by the relative who will return with the insured person to India.

ii. Is so seriously ill that postponement of the proposed medical evacuation is necessary but the attending licensed physician recommends the presence of a relative, but the period of the emergency reunion not to exceed 10 days including travel.

Section II

Contingency insurance (Applicable to sponsored students only)

In the event that it is mutually agreed that the insured person is unable to continue completion of his studies in the country of study (the details of which are declared in the proposal form) due to covered injury or covered sickness first occurring in the country of study resulting in

i. Death or

ii. Loss of Entire sight of either or both eyes, or

iii. Permanent Total Disablement and is medically evacuated under section 1(B) above or a valid claim is payable under section 1(C),

This insurance will pay by way of recompense, a benefit to the nominated sponsor who has provided financial support to the insured person as regard the insured period of study overseas and is declared in the proposal form at a rate of US $ 750 capital sum for each month of study completed during the period of insurance.

In case the insured cannot continue to complete his course of studies due to mental, nervous or emotional disorder, this benefit is limited to 25% of the amount due.

But if the educationalist running the insured person course consider that because his performance on and his attitude to the studies were unsatisfactory, he is unable to complete his course of study no benefit would be payable.

The proposal form, underwriting procedure, policy exclusions etc, are more or less similar to Overseas Medical scheme for business or holiday.

Test Yourself 2

Choose the incorrect option. Re-compensation benefit is available under Employment and Study policy provided the insured person is unable to continue completion of his studies due to ________________.

I. First occurrence of a covered injury or covered sickness.
II. Evacuation from the country as a result of permanent total disablement
III. Poor performance in studies
IV. None of the above

C. Destination India policy

1. Introduction

This is a policy, more or less similar to Videsh Yatra Mitra policy but covers overseas travellers during their visit to India.

The salient features of the coverage are:

a) Section I (Personal accident benefit)

b) Section II (Medical expenses)

i. Reimbursement of reasonable and necessary costs of medical and hospital treatment whilst on the covered trip, including certain emergency dental treatment and medically necessary treatment, following a serious medical emergency or hospitalisation

ii. It also covers funeral expenses or repatriation of remains, in the event of death of the insured person whilst on the covered trip.

iii. Cost of reasonable additional accommodation and travelling costs for one person required upon medical advice to stay with, travel to, or escort home is also payable.

c) Section III (Total loss of checked baggage)

d) Section IV (Delay of checked baggage)

e) Section V (Loss of passport)

f) Section VI (Personal liability)

g) Section VII (Hijack risk)

h) The policy will pay up to the amount stated in the schedule for each day of detainment in excess of 24 hours up to a maximum of five consecutive days.

i) Medical Emergency Service: Provided by the 'Agency'

j) In the event of a medical emergency covered by this insurance a 24 hour telephone service provides assistance in the following areas:

i. Liaison with doctors and hospitals

ii. Guarantee of medical charges

iii. Emergency repatriation to country of origin, if necessary

iv. Liaison with relatives in India and country of origin

As regards overseas health, similar covers are being offered by the new entrants with different nomenclature and different policy wordings. However, the basic coverage and extensions remain the same.

Test Yourself 3

Destination India policy is intended to cover _______________.

I. Indians travelling abroad
II. Foreigners visiting India
III. Government officials travelling abroad
IV. None of the above

Summary

a) Videsh Yatra Mitra policy is designed for persons going abroad for business or holiday.

b) The insurance is valid from the first day of insurance and expires on the last day of the number of days specified in the overseas mediclaim policy schedule or on return on India whichever is earlier.

c) The cover offered under this policy encompasses a lot of heads such as personal accident, medical expenses and loss of checked baggage etc.

d) Certain exclusions like travelling against the advice of a physician, travelling for the purpose of obtaining medical treatment etc, are applicable.

e) The proposal form for the policy elicits details such as name, age, passport, nature and purpose of the foreign visit.

f) There is also an annual cover granted to officials of corporate registered under the Companies Act, who are regularly travelling abroad.

g) Employment and Study policy is designed for Indian Citizens temporarily posted abroad in a sedentary non-manual work or students prosecuting studies or engaging in research activities abroad.

h) Destination India policy is a policy, more or less similar to Videsh Yatra Mitra policy but covers overseas travellers during their visit to India.

Answers to TestYourself

Answer 1

The correct option is I.

In case of Videsh Yatra Mitra insurance is valid from 1st day of insurance

Answer 2

The correct option is III.

Re-compensation benefit is not available under Employment and Study policy if the insured person is unable to continue completion of his studies due to poor performance in studies

Answer 3

The correct option is II.

Destination India policy is intended to cover foreigners visiting India.

Self-Examination Questions

Question 1

The Videsh Yatra Mitra policy is valid only if insured journey commences within ___ day(s) of the first day of insurance.

I. 1
II. 7
III. 14
IV. 15

Question 2

The parties to Videsh Yatra Mitra insurance policy expressly agree that the laws of ________________ shall govern the validity, construction, interpretation and effect of the policy.

I. Republic of India
II. Republic of China
III. The visiting country
IV. None of the above.

Question 3

Which statement is not a part of the declaration in the proposal form for Videsh Yatra Mitra policy?

I. I will not be travelling against the advice of a physician
II. I will not be travelling for the purpose of obtaining medical treatment
III. I am not on waiting list for any medical treatment
IV. I am travelling for the purpose of obtaining medical treatment

Question 4

Which of the following risks are not covered under Destination India policy?

I. Medical Expenses
II. Hijack risk
III. Cosmetic surgery
IV. Both II and III

Question 5

Choose the correct statement with regards to Employment and Study policy.

I. The premium for accompanying spouse is same but a lower rate is charged for child under 18 years
II. The premium for accompanying spouse is same but a higher rate is charged for child under 18 years
III. The premium for accompanying spouse and 2 children is the same.
IV. None of the above

Answers to Self-Examination Questions

Answer 1

The correct option is III.

The Videsh Yatra Mitra policy is valid only if insured journey commences within 14 days of the first day of insurance

Answer 2

The correct option is I.

The parties to Videsh Yatra Mitra insurance policy expressly agree that the laws of Republic of India shall govern the validity, construction, interpretation and effect of the policy

Answer 3

The correct option is IV.

I am travelling for the purpose of obtaining medical treatment is not a part of the declarations present in the proposal form for Videsh Yatra Mitra policy.

Answer 4

The correct option is III.

Cosmetic surgery is not covered under Destination India policy.

Answer 5

The correct option is I.

Under Employment and Study policy the premium for accompanying spouse is same but a lower rate is charged for child under 18 years.

CHAPTER 4

BURGLARY INSURANCE

Chapter Introduction

In India, all public sector insurance companies and a majority of private companies offer burglary insurance. The chapter explores the concepts related to burglary insurance. We look at the Burglary (business premises) policy with regards to various parameters such as the scope of cover, the conditions involved and the exclusions etc.

We also discuss the underwriting considerations that are present. The chapter also mentions the various types of burglary insurance policies. We also look at other policies including the peril of burglary such as all risks insurance policies and baggage insurance policy etc. Finally we discuss issues related to burglary and theft claims.

Learning Outcomes

A. Burglary (business premises) policy
B. Other policies including the peril of burglary
C. Burglary and theft claims

Look at this Scenario

Q. What if you got robbed?

Samit is a happy man these days. His sister is about to get married in two days and the house us bustling with frenetic activity. All the shopping has been done and the goods arrived. Samit's sister can't stop gushing about all the jewellery that has been made for her big event.

Given the scenario, Samit is shocked to find out that he has been robbed. The lock to the cupboard has been tampered with and the valuables along with the cash missing.

Answer

According to National Crimes Reporting Bureau (NCRB) a total of 24700 cases of robbery and 4285 cases of dacoity have been reported in 2011. A victim of burglary often harbours a feeling of fear along with a sense of violation knowing that his personal belongings have been handled by a stranger. Therefore it is important that people understand the significance of burglary insurance. After all it does not make sense to be "**penny wise and pounds foolish**".

A. Burglary (business premises) policy

1. Overview

Burglary insurance is a major class of miscellaneous insurance. The policy covers contents against loss or damage by burglary and is available to commercial establishments, factories, warehouses, shops etc. (A separate policy is granted in respect of residential premises).

2. Burglary (business premises) policy - Terms

At the outset, it is necessary to understand the meaning of certain terms.

Housebreaking

Section 445 of the Indian Penal Code has held laid down a rigorous definition of the term "housebreaking". It is not contemplated to go into the ingredients of housebreaking. For our understanding, the following definition may be remembered

Definition

1. Housebreaking

"A person who commits house trespass if he effects his entrance into the house (or any part of it), or if, being in the house (or any part of it), for the purpose of committing an offence, or having committed an offence therein, he quits the house (or any part of it), such entrance or exit being made in the six ways as described in the penal code, is said to commit **housebreaking**".

2. Theft

The Indian Penal Code in Section 378 defines as follows "whoever intending to take dishonestly any movable property out of the possession of any person without the consent of that person or any person having for that purpose authority, moves that property in order to such taking is said commit theft."

3. Robbery

It is an aggravated form of theft. Section 390 of the Indian Penal Code states that theft is robbery "If in order to the commission of or in committing of the theft or in carrying away property obtained by theft, the offender, for that end, voluntarily causes (or attempts to cause) to any person death or hurt or wrongful restraint or fear of instant death or hurt or wrongful restraint".

4. Dacoity

Section 391 of the Indian Penal Code defines 'dacoity' as "Where five or more persons conjointly commit or attempt to commit a robbery or are present and aid such commission or attempt, every one of them is said to commit dacoity".

5. Burglary

The criminal law of the country does not speak of an offence called burglary. Burglary is defined in the policy as:

a) Theft of property from the premises described in the schedule of policy following upon felonious entry of the said premises by violent and forcible means, or

b) Theft by a person in the premises who subsequently breaks out by violent and forcible means, provided there shall be visible marks made upon the premises at the place of such entry or exit by tools, explosives, electricity or chemicals.

c) The use of force and violence need not be against property only – it can also be against the person of an individual.

3. Scope of cover

a) The standard burglary and house breaking insurance policy covers theft of property after actual forcible and violent entry into the premises or theft followed by actual forcible and violent exit.

b) It also covers risk of hold-up.

c) Policies issued to business premises cover stock-in-trade, goods held in trust or on commission, fixtures and fittings, tools of trade such as typewriters and calculators and other similar property against the risks of burglary.

d) Loss or damage to contents or to any part of the building caused by burglary or any attempt therefore, is also covered. In other words repairs to premises or contents caused by the act of burglary are reimbursed.

e) Sometimes, cash and currency notes secured in safe are required to be insured. Such cover is known as cash-in-safe insurance. The cover operates only when the cash is secured in a safe and is granted only if the safe is burglar proof and is of an approved make and design. From the insurance point of view, a safe which is permanently installed in the premises is a better risk than a safe which can be shifted. The cover is granted subject to the following two clauses:

i. The loss of cash abstracted from the safe following the use of the key to the said safe or any duplicate thereof belonging to the insured is not covered unless such key has been obtained by violence or threats of violence or through means of force.

- ✓ This is generally known as “key clause”.
- ✓ It is necessary to note that the use of force need not necessarily be against the person or an individual.
- ✓ It can be against property as well.
- ✓ For instance, if the key to the safe secured in a cupboard is removed after forcing open the cupboard, the loss is covered by the policy.
- ✓ The key clause cannot be deleted even by payment of extra premium.

ii. A complete list of the amount of cash in safe should be kept secure in some place other than the safe, and the liability of the insurer is limited to the amount actually shown by such records.

4. Exclusions

The exclusions under a burglary (business premises) insurance policy are:

a) Loss or damage where any member of the insured's household or his business staff is concerned as principal or accessory.

b) Resulting from any act committed by any other person lawfully on the premises, wherein the property insured may happen to be.

c) Which can be insured against under a plate glass or a motor insurance policy.

d) Due to fire or riots/strike, terrorism.

e) Discovered at the time of stock taking /checking.

f) To deeds, bonds, bills of exchange, promissory notes, cash, treasury notes, bank notes, cheques, securities for money, stamps, stamp collections, books of accounts, manuscripts, documents of any kind and medals and coins, unless specially mentioned and agreed to be covered.

g) The usual exclusions like war and allied risks.

h) Depreciation, wear and tear and consequential losses etc., also appear in this policy.

5. Extensions

a) An extension of the policy is frequently sought in respect of riot and strikes damage and terrorism. It is possible to extend the policy to include loss of the insured property to cover burglary as a result of riot & strike risks.

b) It is possible to extend the cover to include theft and larceny not accompanied by violent ingress or exit. The extension does not cover losses detected during routine stock taking/ checking.

c) Some insurers cover expenses towards restoring paper files, plans, records and drawings, data and installation costs for computer programs up to a specified limit.

d) Expenses towards clearance of debris and movement and protection up to 10 % of the loss subject to a maximum limit prescribed.

e) Loss or damage to the properties of the employees of the insured up to a specified limit.

6. Conditions

Each and every item specified in the schedule is separately subject to average, whereby if the property insured at the time of loss or damage shall be of greater value than the sum insured thereon, the insured shall be considered as being the insurer for the difference and shall bear a rateable proportion of the loss accordingly.

The following example makes the position clear

Example

Particulars	Rs.
Sum Insured	2,00,000/-
Value of property at the time of loss	4,00,000/-
Amount of loss	10,000/-
Loss payable = 2,00,000 x 10,000 / 4,00,000	5,000/-

7. Notice of claim

Immediate notice to the insurers indicating the circumstances of loss should be given upon the happening of any event giving rise or likely to give rise to a claim under the policy. Within 7 days of the notice, the insured has to lodge with the insurers, a detail statement in writing of the loss or damage with an estimate of the intrinsic value of each article lost and the amount of damage sustained.

In addition, full particulars and evidence to substantiate the claim should be given.

8. Prevention and minimisation of loss

The insured is required to exercise reasonable care in the selection and supervision of employees and he shall take reasonable steps to safeguard the property insured and to secure all doors, windows, and other openings.

Upon the happening of any event giving rise or likely to give rise to a claim under the policy, the insured has to give immediate notice to the police, take all possible steps to apprehend the guilty person or persons and to recover the property lost.

If the insurer so requires, the insured has to take steps for the prosecution and conviction of the guilty persons and for recovery of the property from such persons, the expenses thereof being borne by the insurer.

9. Indemnification of loss

The insurer may reinstate, replace, or repair the property or premises, as the case may be, instead of paying the amount of the loss or damage. Upon payment of any claim for loss, the property in respect of which the payment is made shall belong to the insurers.

10. Contribution

The policy shall contribute rateable proportion of any loss or damage, should at the time of such loss or damage, there be in existence any other policy or policies covering the same property.

11. Reinstatement of sum insured

On payment of claim, the sum insured gets automatically reduced by the amount of claim paid unless the sum insured be reinstated by payment of a pro-rata additional premium on the amount reinstated

12. Transfer of property

Excepting for the transfer of the insured property from the insured to any other person by will or operation of law, the policy ceases to be in force as to any of the insured property which passes from the insured to any other persons, unless notice thereof be given to the insurers and the insurers accord their consent by endorsing the policy in favour of the transferee.

13. Arbitration

The condition of arbitration applies to:

- ✓ Differences arising in respect of quantum of liability only
- ✓ If the liability is not admitted, arbitration cannot take place

In addition to the above conditions, other conditions such as the ones mentioned here are also included.

a) Warranting the truth of all statements in the proposal.

b) Invalidation of the policy if there is any misstatement in or omission of a material fact from the proposal.

c) Any fraudulent claim made or the records relating to the purchases and sale of goods be not duly and correctly kept etc.

14. Proposal form

The proposal form for burglary insurances contains questions relating to the following

a) The name and address of the proposer

b) The profession or occupation of the proposer

c) The situation of the premises

d) The construction of the premises

e) The sum proposed item wise

f) Details of security measures like watchmen/cc tv camera etc.

g) Details of past insurance history and claims experience

h) Details of existing fire and burglary insurance and the name of the insurers, etc.

15. Underwriting

The following are the important underwriting considerations

a) Nature of insured property

Two aspects are relevant in this context.

i. The value of the property
ii. The weight and/or volume of the property

Articles of small volume/weight and having high value are obviously attractive to burglars.

b) Premises in which the insured property is housed

The class of construction of the premises is important. Besides, premises situated in densely populated areas are considered better risks than those situated in lonely areas.

The following points are also taken into account:

i. Whether or not the premises are occupied for all hours of the day and all days of the year?
ii. If not, the hours for which and/or the number of days for which the premises are unoccupied?

c) Safety measures

Adequate measures taken for the safety of the insured property is considered to be a good feature. These include:

i. The provision of a watchman to effectively guard the insured property round the clock, improves the risk.

ii. The past claims history and insurance history.

iii. Safety devices and installation of burglar alarms, CCTV and other devices can attract a discount in the premium.

- ✓ It is pertinent to note that if the proposer claims to have installed such devices, a warranty should be imposed as follows.
- ✓ “It is warranted that the burglar alarm/devices installed should be in working condition at all times during the currency of the policy”.

16. Other aspects

a) Underwriter should take into consideration moral hazard of the proposer which is of prime importance.

b) Survey of risk, where sum insured is very large or other special features are involved.

c) Maintaining of books of accounts to enable underwriter to assess correctly amount of liability in the event of claim.

d) Whether stock taking is done at regular intervals & accounts are audited once a year.

e) Correct description of goods is given for proper identification.

f) Whether Sums insured have been given separately against:

- ✓ The insured’s own stock
- ✓ Similar goods held in trust or on commission
- ✓ Furniture, other items etc
- ✓ Cash or valuables in safe

g) In case of proposal for cash in safe, weight, size and make of safe should be examined whether it is burglar resistant and fixed in wall.

17. Pre-acceptance survey report

Acceptance and the terms of the cover are based on the report given by the surveyors. The report generally contains the following particulars

a) Proposer's name, address and business

b) Exact description of the property proposed for insurance

c) Highest value of a single article

d) Whether the stock books are properly maintained and whether the exact amount of loss can be ascertained from them

e) Maximum possible loss in a single incident of burglary

f) Whether the proposer resides on the premises

g) Between what hours and/or during what days are the premises left unoccupied

h) Particulars of all burglaries which have occurred on the premises, and the steps taken to prevent a recurrence

i) Number of doors, windows, skylights and other openings on the premises and how they are secured

j) Whether any special precautions (like burglar alarms, external collapsible gates, etc.) are taken to protect the premises, and if so what

The inspection of risk is necessary where sum insured is large. The purpose of such survey will be two fold. Firstly, it will provide the underwriter with a visual picture of the risk so that it can be properly rated and special conditions imposed, if necessary. Secondly, the report may also highlight any shortcomings in security/safety features and suggest means for improvement of risk.

The inspection report does not restrict itself to the property to be covered but also covers various other important aspects like:

i. Points of entry exit and other openings and how these are safeguarded

ii. Provision for armed guards, burglar alarms, collapsible gates

iii. Description of safe as to brand, size, make etc.

iv. The method of maintaining account books and improvements suggested

18. Protective devices

There cannot be any protective device which can be termed as 100% burglar proof. However, the proposer has to endeavour to make the risk as safe as possible. These devices can be broadly classified as under:

a) Locked Bars and other fasteners e.g. Latch locks, Mortise locks, Locking bars and so on.

b) Burglar alarms of electronic type. These could be either open circuit type or as is more common the closed circuit type.

c) Close circuit T. V.

d) Armed guard round the clock

19. Rating

a) The rate of premium is quoted as a rate per cent of the sum insured.

b) The rate varies according to type of goods, location, and construction of premises, security measures etc.

20. Types of policies

The following are some of the important types of policies issued

a) Full value policies

A full value policy covers the goods insured for their full value.

In reckoning the full value, considerations of profit are to be excluded.

In other words, the full value should include the original cost price to the proposer and the overheads.

Full value policies may be further sub divided into two types 'non-declaration' and 'declaration' policies.

i. Non-declaration policies

- ✓ A non declaration policy is one where the full value is indicated at inception and the premium is charged on the value indicated.
- ✓ Any increase or decrease in the sum insured to be effected by endorsement and premium charged or refunded at short period scale.
- ✓ These policies are suitable for insuring property the value of which is likely to remain more or less stable during the period covered by the policy.

ii. Declaration policy

- ✓ A declaration policy customarily issued in respect of commodities like food grains, cotton, jute, rubber, etc., where the fluctuation in values takes place very frequently.
- ✓ The proposer has to state in advance the estimated sum insured on which provisional premium is charged.
- ✓ The insured has to declare every month the higher value of the stock held by him during the preceding 30 days immediate to that date.
- ✓ After expiry of the policy, the average of the monthly declarations is taken and the actual premium payable is obtained by applying the rate percentage on the average value.
- ✓ The provisional premium is adjusted against the actual premium.
- ✓ But while allowing a refund, the insurer retains certain minimum amount from the provisional premium paid.
- ✓ Usually 50% of the provisional policy premium is at least retained.

The main advantage of a declaration policy is that it provides the insured with an economical cover but affording at the same time a full cover. Some of the main conditions of a declaration policy are:

- ✓ If the insured omits to make a declaration for a month, the sum insured is deemed to be the declaration for the month.
- ✓ The insurers' liability is restricted to the sum insured.
- ✓ The sum insured may be altered after the issue of the policy, by prior agreement between both parties.
- ✓ The condition of average is applicable whereby the insurer pays only pro-rata any loss, if the value of the stocks on the date of loss is in excess of the sum declared.

b) First loss policies

First loss policies are not full value insurance in the sense that the sum insured under the policy does not represent the full value of the property covered by the policy. There are certain bulk commodities stored in loose form like sulphur, rock phosphate, etc. as also heavy machinery, the total loss of which is practically impossible.

The proposer in such cases desires that since the maximum probable loss is unlikely to exceed a certain percentage of the full value, the property may be insured for a sum representing that percentage only. If the insurer agrees to such a request, 'first loss' policy (also known as 'partial value' policy) is issued.

The policy insures the property for a specified amount only, which is estimated to be the maximum likely loss on any one occasion. The sum insured is expressed as a percentage of the full value, say, Rs.25 lakh being 25% of the full value of Rs.100 lakh.

i. Condition of average

Since these policies are not 'full value' policies, the pro-rata condition of average is applied in a different manner. The condition of average reads as follows

"It is hereby declared and agreed that this policy is issued as a First Loss insurance up to ___% of insured's total stocks (100%) as specified in the schedule attached to and forming part of the policy. It is further declared and agreed that in the event of the total value of stocks at risk at the time of loss within the meaning of policy be greater than the total value declared for purposes of this insurance and incorporated in the schedule, the insured shall be considered as being his own insurer for the difference, and shall bear a rateable share of the loss accordingly.

Every item, if more than one, of the policy, shall be separately subject to this condition."

ii. Conditions for issue

- ✓ First loss policy may be issued only under the following circumstances and conditions
- ✓ Acceptance is only considered in the case of large warehouse and stores where the value of stock is considerable and where the stocks involved are of a substantial and bulky nature, rendering total loss a remote possibility.
- ✓ Such a policy may be considered only where the total value of stocks to be insured exceeds, a minimum limit specified.
- ✓ No First Loss policy is usually issued for less than 25% of the total value of the property.
- ✓ Cover in respect of damage to the premises is excluded.

iii. Rating

No definite rules can be laid down for the rating of partial value insurance as this depends on circumstances of each case, the factors to be taken into account being:

- ✓ The full value of the property to be insured
- ✓ The sum insured selected by the proposer and its relationship to total value
- ✓ The maximum probable loss, having regard to the nature of the stock
- ✓ The normal rate for the risk on full value insurance

iv. Generally the following method of rating is adhered to

- ✓ If the cover is for 75% of full value, charge 90% of the premium for full value
- ✓ If cover is for 65% of the full value, charge 80% of the premium for full value
- ✓ If cover is for 50% of the full value, charge 70% of the premium for full value
- ✓ If cover is for 25% of the full value, charge 50% of the premium for full value

c) Floating policies

These policies cover goods in more than one location covered under one sum insured. For example, a sum of Rs. one lakh may be floated over five warehouses. The subject matter of insurance has to be identical in all locations and the locations should be in the same city, town or village.

They are rarely issued and even when issued are confined to well-known clients with excellent claims record and good moral hazard. These policies are issued when the insured is unable to give separate sum insured at any one location.

d) Valued policies

Valued policies, or more appropriately agreed value polices, are contracts where the sum insured is deemed to be the actual value of the property insured throughout the currency of insurance. Claims under such polices in respect of total loss are settled without any adjustment which may otherwise arise on such considerations as adequacy of the sum insured, market value, etc.

Valued policies are issued mainly in respect of valuables, paintings, pictures, curios, antiques and other works of art.

Valued policies may appear to be contrary to the principle of indemnity. But, legally, it is held that under these policies, the parties to the contract agree the measure of indemnity at inception instead of waiting till a claim arises, to assess the amount of loss payable.

One of the main reasons for the measure of indemnity to be agreed in advance is that in respect of many articles like stamps, curios, works of art, antiques, etc., the intrinsic value may be very small compared to the sentimental or personal value which the owner of the article may place on it. Hence, an agreement of the value, relieves the insured and the insurers of the onus of deciding an adequate insurable value, and avoids disputes.

Partial losses under "valued policies" are settled in the same manner as such losses are settled under ordinary policies.

Example

A new part being fixed in the place of a lost or worn out part, would attract depreciation. However in the present market, clients demand 'New for Old'. In such cases, appropriate premium can be charged and cover accorded.

e) Policies based on inventory and valuation

Since a burglary insurance policy is a contract of indemnity, the insurers would require the insured to produce invoices and other evidence of cost to establish his claim. To save the insured from this cumbersome procedure, insurers agree to settle claims by incorporating an "**inventory and valuation clause**" in the policy.

The clause provides that:

i. An inventory and valuation of the contents should be carried out by a professional valuer.

ii. The value set opposite to each item by the valuer is accepted as the value of the property on the date of valuation and the claims would be settled without insisting on any other evidence as to value or cost.

The clause, however, provides that a reasonable allowance for appreciation or depreciation of the value should be allowed within the limit of the sum insured.

Difference w.r.t. "valued policy"

The difference between a valued policy and a policy subject to an inventory and valuation clause must be understood. Whilst in both, there is a prior agreement as to the insured value, a valued policy does not bring in considerations of appreciation or depreciation in value, but a policy subject to an inventory and valuation clause brings in these considerations so as to conform to pure indemnity.

Test Yourself 1

The exclusions under a burglary (business premises) insurance policy include _____________.

I. Stock in trade
II. Loss/Damage discovered at the time of stock taking /checking
III. Goods held in trust
IV. Tools of trade such as typewriters and calculators

B. Other policies including the peril of burglary

1. Burglary (private dwellings) insurance policies

These policies cover theft risk also in addition to burglary and housebreaking risks. The total contents are to be insured for their full value and should be divided between furniture and general household goods, personal effects of every description and jewellery and valuables.

An upper limit of one third of the total sum insured is placed on the amount insured in respect of jewellery and valuables, unless extra premium is paid on so much of the amount as exceeds one-third of the total sum insured. Alternatively, one policy may be issued for furniture, general household goods and personal effects and another for jewellery and valuables.

Deeds, bonds, bills of exchange, promissory notes, cheques, securities for money, stamps and documents of any kind, manuscripts, medals and other similar property are not covered unless specially agreed to.

In respect of jewellery and valuables, a single article limit of 5% of the total sum insured is stipulated. This percentage may be varied.

2. Pair and Set clause

In respect of articles which are in pairs or in sets, the policy does not pay more than the value of any particular part lost, without reference to any special value which such article may have as part of such pair or set (i.e. not more than a proportionate part of the insured value of the pair or set).

Note: This cover is now a part of householders' comprehensive cover dealt with later.

3. All Risks insurance policies

Strictly speaking, an "All risks" insurance policy is not a policy covering all risks of loss or damage. It is an "All risks" policy in the sense that it seeks to cover loss or damage by fire, burglary, theft or any other accidental or fortuitous circumstances.

The policy is especially suitable for jewellery, valuables, curios, antiques and other works of art, paintings, watches, clocks, cameras, opera glasses, trinkets and other similar articles.

The policy contains the single article limit and pair or set clause.

The besetting problem in all risks cover in respect of works of art, paintings, pictures, curios and antiques is the basis of deciding the value. The insured values in respect of these items are decided on an agreed value basis. For jewellery, gold and silver plates, the values are fixed in consultation with a professional jewellery appraiser.

The primary and indispensable requirement of “all risks” business is good moral hazard. The cover is wide enough to include losses about which the company may have to rely to a very large extent on the insured himself. Proposals should be entertained from those whose integrity and reputation are beyond doubt. Even, the insurance should be given as accommodation only to valued clients whose other business is on books of the insurers over a period of years.

All jewellery items and valuables proposed for insurance should be individually described in the proposal form and the sum insured against each item should be stated. No selection of risk/property should be allowed.

The following details are ascertained:

- ✓ Full description of jewellery
- ✓ No. of precious stones, amount of gold etc.
- ✓ Type of ornament
- ✓ Valuation made by reliable recognised jeweller

If a camera is covered, an endorsement is attached to the policy excluding the following losses:

- ✓ Mechanical fracture, failure or breakdown
- ✓ Scratching, cracking or breakage of lens
- ✓ Improper handling, improper use or over winding etc
- ✓ Delay, confiscation by customs

Cameras as they are carried loose, slung over shoulder during travels or outings, are most apt to be lost or left behind and consequently they do not, constitute a good risk.

a) General considerations

i. Since scope of the cover may extend to overseas geographical limits, insured losses may occur at stations, airports, on board a ship and in various parts of the world. These claims are more difficult to handle

ii. It is very important to ensure that there is satisfactory evidence of value of individual items when the risk is proposed for insurance. This helps considerably when dealing later with the loss of the article concerned, on account of wear & tear and depreciation.

iii. The indemnity will be to the extent of the intrinsic value of the property so lost or destroyed with option at the discretion of the company to reinstate or replace the property.

b) Exclusions

Although the policy is all risk it does contain exclusions:

i. Damage caused by any process of cleaning, dyeing or bleaching, restoring, repairing or renovation or deterioration arising from wear and tear, moth vermin, insects or mildew or any other gradually operating clause.

ii. Breakage, cracking or scratching of crockery, glass, cameras, binoculars, lenses, sculptures, curios, pictures, musical instruments, sports gear and similar articles of brittle or fragile nature, unless caused by fire or accident to the means of conveyance.

iii. Loss or damage caused by mechanical or electrical derangement/breakdown of any article unless caused by accidental external means.

iv. Over winding, denting or internal damage of watches and clocks

v. Loss or damage to money, securities, manuscripts, deeds, bonds, bills of exchange, promissory notes, stocks or share certificates, stamps and travel tickets or travellers' cheques, business books or documents.

vi. Theft from any car except car of fully enclosed saloon type having at the time all the doors, windows and other openings securely locked and properly fastened.

vii. Any loss or damage arising through delay, detention or confiscation by customs or by other authorities.

viii. Usual exclusions like war and allied risks, consequential losses, nuclear weapons material, loss or damage contributed by the insured etc. also appear in this policy.

4. Baggage Insurance policy

The baggage insurance provides indemnity to the insured to the extent of the intrinsic value of the accompanied personal baggage of the insured or member(s) of his family, so lost, destroyed or damaged by fire, riot and strike, terrorist activity, theft or accident, anytime, whilst the insured is travelling on tour and/or on holiday, in all places and situations, during the period of insurance and within the limits stated in the schedule provided always that the liability of the company shall in no case exceed the sum insured on each item or on the whole total sum insured.

a) Exclusions

The specific exclusions in this policy are loss or damage:

i. Occurring during routine travel.

ii. To articles which did not form part of the baggage when the journey commenced, unless declared and accepted by the company.

iii. To articles of consumable and perishable nature.

iv. Loss of articles like sticks, umbrellas etc.

v. Property in use on the voyage or journey.

vi. Articles or clothes whilst being worn or carried about.

vii. Arising from leakage, spilling of liquids, oils etc.

viii. The other exclusions are the same as under "All Risks" policies, detailed earlier.

b) Other conditions

i. Baggage must be insured for its full value. In the event of under-insurance, condition of average will apply.

ii. The purpose of the policy is to cover baggage i.e. personal effects whilst on travel. The cover incepts from the time travel begins and cover continues during the stay also at intermediate places and destination and it ends when insured returns to his original place or period expires whichever is earlier.

iii. If the baggage policy is to cover objects which are fragile in nature, high value risk or have such other special items they will have to be specifically declared and value stated thereof. If percentage of such items is large the premium rate is loaded.

iv. Since the cover is valid during the journey the loss can take place anywhere within geographical area covered. Hence, it is necessary that notice of claim has to be sent to the nearest office of the company so that the prompt action is possible. Secondly, a written notice on railway authorities, shipping company, airline or hotel may be necessary where the loss has taken place so that recovery proceedings may be instituted against them.

v. Notice to police in the case of theft is required to investigate into the matter

c) Underwriting considerations

i. The policy is intended to cover accompanied baggage (not dealer's stock or traveller's samples) during specified journey, which includes air, sea, rail or road travel undertaken by the insured.

ii. Proposal form should be fully completed as regards description of contents and value of each package. For jewellery, full description and individual values should be given.

iii. One of the important points in baggage insurance is to obtain adequate sums insured. Therefore, it is necessary to have a full inventory and individual valuation of each item. Whilst it is usual for average to apply to a baggage policy, the scaling down of claims because of insufficient sum insured is unsatisfactory except in the most blatant cases and causes more annoyance to the insured than benefit to the insurer. It is therefore better to ensure an adequate valuation at the time when the policy is effected. It is very important to insist on separate valuations for special items such as cameras, watches, jewellery etc. in the overall valuation. An overall limit per item is usually specified in the policy

iv. In the absence of documentary evidence supporting the loss, question of moral hazard is of prime importance, as insurers have to rely on insured's word and claim form submitted thereof. Furthermore claimant's assessment will be very much on higher side considering insured articles to be "brand new & valuable".

Taking into account the above aspects, this insurance was earlier given as an accommodation cover to regular clients of integrity. However, the present trend is to include the baggage cover along with travel insurances, both, overseas and domestic.

Test Yourself 2

Choose the correct option with regards to the "Pair and Set" clause in relation to burglary (private dwellings) insurance policies.

I. The policy pays for the complete set not just the value of any particular part lost.
II. The policy pays exactly half of the value of the set in case any loss occurs
III. The policy does not pay more than the value of any particular part lost.
IV. The policy pays a pre-determined amount in the event of any loss.

C. Burglary and theft claims

1. Claim settlement steps

The following are briefly the steps required to be taken by the insured to ensure prompt settlement of burglary insurance claims:

a) To give to the insurers an immediate written notice of the occurrence giving rise to a claim.

b) To take all possible steps to discover the guilty person and to recover the stolen property.

c)

d) To furnish such evidence of the loss as the insurers may require.

e) To furnish to the insurers the claim form duly completed by him.

f) To co-operate fully with the insurers and with the claims surveyors/inspectors who may be appointed by the insurers.

g) To abstain from fraud or intentional exaggeration in the particulars of the claims.

2. Claim form

A burglary insurance claim form is designed to elicit the information on following points

a) The description and value of the property stolen

The insured has to submit full description of:

- ✓ The property stolen or damaged
- ✓ Date of its purchase
- ✓ The name and address of the person from who purchased and the cost

The investigator appointed, verifies the information furnished. Allowance has to be made for depreciation and wear and tear to arrive at the amount of the claim.

The total value of the property upon the premises at the time of loss is to be stated and verified. This is necessary to determine whether pro-rata average is applicable. The amount of fire insurance on such property is required to be stated and verified to provide additional evidence to the value of the property.

Details are required in respect of date and time of loss, when discovered and by whom, how entry to the premises was effected and which portion of the premises was entered.

b) The description of the premises

This would include the address of premises at which the loss occurred, whether occupied or not at the time of loss, etc.

c) Ownership

The insured has to state whether he is the sole owner of the property lost or damaged, and also whether he is responsible for repairs to the premises.

d) Other insurances

Existence of other insurances covering the same subject matter for damages by the same peril shall attract contribution clause.

e) Previous losses

Lot of information can be derived from description of earlier losses if any.

f) Notice to police

This would relate to notification of loss to the police and reasons, if loss not notified to the police.

g) Declaration

The claims form contains a declaration by the insured that all statements are made to the best of his knowledge and belief and that the property described belonged to the persons named and that no other person has any interest therein whether as owner, mortgagee or otherwise.

3. Investigation and assessment of loss

Most claims are settled only after a thorough investigation by a professional claims investigator. Since claims investigation under a burglary insurance policy requires a detailed examination of the books of accounts, purchases and sales ledgers, invoicing, vouchers and the like, a chartered accountant is usually appointed as a loss surveyor to investigate the loss.

The surveyor is assigned the task of investigating the cause and the amount of the loss. He has to see, inter alia, whether all the security arrangements stated to have been made by the insured were actually made on the day of loss, whether all warranties were observed, whether there was any under insurance on the day of loss and whether the subject matter insured tallies with goods or stock alleged to have been lost or damaged. The survey report would amplify the information obtained in the claim form.

Loss surveyors as well insurers maintain close liaison with the police. The report obtained from the police will provide corroborative evidence about the event giving rise to the claim. The list of the stolen property and the values thereof submitted to the police will have to be compared with the claim form for cross-checking purposes.

If the culprit has been traced or is likely to be traced by the police, the settlement of the claim may be delayed until the prosecution proceedings are completed, although settlement does not depend upon prosecution. If stolen property is likely to be recovered, close co-operation with the police at all stages will ensure that the insurers interest and rights in the recovered property are recognised and protected.

The claim is processed on the basis of the claim form, survey report, the police report and various vouchers, proof of ownership and other evidence submitted by the insured to substantiate the loss.

4. The operation of the insured peril

The first question to be decided is whether the event insured against has taken place, or in other words, whether the loss is within the scope of the policy as per the definition of burglary.

There must be evidence of a broken lock, broken window, broken roof, etc., to substantiate the claim. Entry effected by turning the handle of an outside door or by opening the door with duplicate keys is not within the meaning of burglary as defined. There are different schools of thought on this issue.

Example

If the keys have been accessed by the thief and he manages to make a duplicate out of it, liability under the policy would depend on how the key has been accessed, whether forcefully or stealthily. Anything done without force will be theft. In such cases, it is important to note whether or not theft is taken as an extension, and whether it is within the purview of the covered peril.

On the other hand, if the lock is broken, say, with an instrument, there would be violent and forcible entry.

The second question is to determine whether the loss falls within the exclusions under the policy and finally it needs to be determined whether the property lost or damaged is insured under the policy.

5. Compliance with conditions and warranties

The liability for any claim is dependent upon the insured's compliance with policy conditions and warranties. The claim form, the survey report and the police report are scrutinised to see whether any breach of conditions or warranties has occurred.

The claim will not be paid if the insured has committed breach in the following respects:

a) Mis-statement in or omission of a material fact from the proposal

b) Lack of reasonable care in the selection and supervision of employees

c) Failure to take reasonable precautions to safeguard the premises and the property therein

d) Failure to maintain books of account showing all purchases and sales of goods or stock and articles or goods manufactured

e) Use of fraudulent means or devices by the insured or any one acting on his behalf in support of the claim

Example

The policy may contain a warranty that the premises are guarded by a watchman either during the night or on a 24-hour basis or that a specified safety device is in place and is in working condition at all times.

Breach of such warranties will prejudice the claim. It is important to note that under these circumstances, the materiality of the breach is not relevant, the warranty has to be complied with strictly and literally. In case of such express warranty, breach of the same will render the claim not payable.

6. The amount payable

Burglary insurance policies are contracts of indemnity. The operative clause of the policy provides that the insurers shall pay or make good to the insured, loss or damage to the extent of the intrinsic value of the property, or the amount of the damage sustained.

Example

In respect of stolen stock, only the cost price, at which the stock can be replaced, is paid.

The insured has to provide adequate proof of the amount of loss in the form of invoices and other relevant records. The maintenance of records of purchases and sales is relevant in this respect. In respect of damage to premises, which is covered if the insured is responsible for such damage, claims are settled on the basis of repairer's estimate.

a) Repair costs

Repair costs are strictly confined to the damage actually caused by forcible entry. If the repairs bring about a betterment or improvement, a proportionate cost will have to be borne by the insured. The same principle will apply for damage to fixtures and fittings, if covered by the policy.

Example

If the woodwork of the doors has been cut the necessary repairs of woodwork would fall under the policy.

A new coat of paint to the whole door will not fall under the policy

b) Important conditions

i. A burglary insurance policy excludes damage which may be covered by a plate glass insurance policy, so that if the windows are broken by burglary, the burglary insurance policy would pay for the repairs of the damage of the framework only, and the replacement of glass itself will fall within the purview of the plate glass insurance policy, if the insured had one.

ii. The insurers have the option to reinstate, replace or repair the property or premises, instead of making cash payment. This option, though theoretically available to the insurers, is rarely exercised in practice. If, however, an insured is unreasonable in his demands and insists on exaggerated amounts, the insurers can bring him round by pointing out the above option and if necessary by enforcing it.

iii. The policies contain the pro-rata average condition which provides that in respect of each and every item insured under the policy, if the value of the property be greater than sum insured, insured shall bear a rateable share of the loss or damage. The following example will illustrate this.

Example

Property	Value (Rs.)	Sum Insured (Rs.)	Loss (Rs.)	Amount Payable (Rs.)
Stock-in-trade	40,000	45,000		
Fixture and fittings	10,000	5,000	2,000	1,000
	50,000	50,000		

Although the total sum insured represents the total value, there is under insurance in the item fixtures

Average is applied because the condition provides that each and every item is separately subject to average.

iv. Under a 'first loss' policy also, the insured has to bear a proportion of the loss if it is established that there has been under insurance. However, average is applied, if the policy is subject to 'partial condition of average' discussed earlier.

v. If the full value of the total property at the time of loss is more than the full value of the property declared under policy, there has been under insurance and the insured is required to bear a proportion of the loss.

vi. If there are additional insurances on the same property, the liability under the policy is restricted to a rateable proportion of the loss or damage.

c) Importance of subrogation in burglary insurance

A policy condition provides that upon payment of any claim the property in respect of which the payment is made shall belong to the insurers who acquire the same rights to recover that property as the insured himself would have had.

Thus, the stolen property may be recovered from the guilty party or even from innocent receivers of the property who do not acquire any title it.

d) Action after settlement

It is desirable to recommend additional protection to premises based on the information revealed by the claim form and the survey report. Continuance of the cover or the renewal of the policy may be made subject to the insured's carrying out the suggestions for risk improvement.

e) **Reinstatement of the sum insured**

After a claim is paid, the sum insured gets reduced by the claim amount. Thus the sum insured has to be restored by payment of an additional premium, to continue the full cover till expiry of the policy.

As regards burglary and theft, similar covers are being offered by the new entrants with different nomenclature like Home Guard, Office Guard etc. Usually they are package covers. However, the basic coverage and extensions remain the same.

Test Yourself 3

Which of the following points are included under a burglary insurance claim form?

I. The description and value of the property stolen
II. Details in respect of date and time of loss
III. Details of other insurances
IV. All of the above

Summary

a) Burglary insurance is a major class of miscellaneous insurance.

b) The policy covers contents against loss or damage by burglary and is available to commercial establishments, factories, warehouses, shops etc.

c) The standard burglary and house breaking insurance policy covers theft of property after actual forcible and violent entry into the premises or theft followed by actual forcible and violent exit.

d) The exclusions under a burglary (business premises) insurance policy include damage due to fire, riots/strike and terrorism etc.

e) Immediate notice to the insurers indicating the circumstances of loss should be given upon the happening of any event giving rise or likely to give rise to a claim under the policy.

f) The proposal form for burglary insurances contains questions relating to name and address of the proposer, situation of the premises and sum proposed item wise etc.

g) Nature of insured property, premises in which the insured property is housed and safety measures taken are important underwriting considerations for burglary insurance.

h) Some of the important types of policies used are Full Value policies, First Loss policies and Floating policies etc.

i) Some of the policies including the peril of burglary are Burglary (private dwellings) insurance policies, All Risks insurance policies and Baggage insurance policy etc.

j) To ensure prompt settlement of burglary insurance claims one need to give to the insurers an immediate written notice of the occurrence giving rise to a claim.

k) The liability for any claim is dependent upon the insured's compliance with policy conditions and warranties.

Answers to TestYourself

Answer 1

The correct option is II.

Loss/Damage discovered at the time of stock taking /checking is excluded under a burglary (business premises) insurance policy

Answer 2

The correct option is III.

The policy does not pay more than the value of any particular part lost.

Answer 3

The correct option is IV.

The description and value of the property stolen, details in respect of date and time of loss and details of other insurances are included in a burglary insurance claim form.

Self-Examination Questions

Question 1

Choose the incorrect statement.

I. Theft includes acts carried out to obtain unauthorised possession of property.
II. Robbery is an aggravated form of theft where the offender voluntarily causes (or attempts to cause) to any person death or hurt.
III. Theft is an aggravated form of robbery where the offender voluntarily causes (or attempts to cause) to any person death or hurt.
IV. Theft and robbery are different names for the same crime

Question 2

Samit has a property worth Rs 1, 00, 000 insured under his burglary insurance policy. At the time of theft the value of the property is Rs 2, 00, 000 and the loss caused to Samit is Rs 10, 000. What is the amount payable to Samit?

I. Rs 10,000
II. Rs 5,000
III. Rs 20,000
IV. Rs 1,00,000

Question 3

Which of the following is not an underwriting consideration for a burglary insurance policy?

I. Premises in which the insured property is housed
II. Nature of insured property
III. Occupation of the insured
IV. Safety measures taken to secure the property.

Question 4

Choose the correct statement.

I. A full value policy covers goods for their full value including considerations for profit
II. A full value policy covers goods for their full value excluding considerations for profit
III. First loss policies are full value insurance policies
IV. None of the above

Question 5

Which of the following is exclusion under "All Risk" policy?

I. Loss due to fire
II. Loss due to theft
III. Loss due to burglary
IV. Damage caused by any process of cleaning, dyeing or bleaching.

Answers to Self-Examination Questions

Answer 1

The correct option is III.

Robbery is an aggravated form of theft where the offender voluntarily causes (or attempts to cause) to any person death or hurt.

Answer 2

The correct option is II.

As per the average clause Rs 5, 000 will payable to Samit.

Answer 3

The correct option is III.

Occupation of the insured is not an underwriting consideration for a burglary insurance policy

Answer 4

The correct option is II.

A full value policy covers goods for their full value excluding considerations for profit.

Answer 5

The correct option is IV.

Damage caused by any process of cleaning, dyeing or bleaching is excluded under "All Risk" policy.

CHAPTER 5

MONEY INSURANCE

Chapter Introduction

Money insurance is a modified version of burglary insurance. The chapter discusses the cover offered by money insurance policies, the general conditions involved and the exclusions that are applied. We also look the extensions available under these policies and the underwriting considerations that are involved.

Learning Outcomes

A. Money insurance

Look at this Scenario

Horror Stories!!!

Samit is the owner of a "Magic Foods", a chain of fast food outlets spread across the city. Everyday a significant amount of money moves between various branches of "Magic Foods". This movement of money represents a great deal of risk for Samit and even a small setback can deal a heavy financial blow to the business. The prospect of being robbed is no less than a horror story to Samit.

How not to feature in one?

When we are faced with similar fears, an insurance policy offers much needed protection. Every business has a lot of inherent risks. If left un-attended they could lead to huge losses. The key to success here is to manage risk effectively. Handling of money is synonymous with business and hence it is pivotal to keep this money safe. Money insurance cover can protect your money / cash round the clock against incidences like burglary or theft.

A. Money insurance

1. Coverage

This is a modified version of burglary insurance, and covers under:

Section I

Money in transit between the insured’s premises and bank or post office or other specified places

Money in transit between the insured’s (main) premises and branch premises

Section II

Money in safe

Coverage varies amongst the insurers. However the policy covers customary money in transit.

a) Cash in transit from bank to insured premises, for payment of wages.

b) Cash in transit from the insured’s main premises to insured’s branch premises, for the payment of wages.

c) Cash in transit from the insured’s premises to bank/post office for purchase of demand drafts, postal orders, money orders, postage or revenue stamps.

d) Cheques, bank drafts, currency notes, treasury notes, postal orders, money orders and postage stamps etc, in transit from the bank/post office to insured's premises.

e) Cash, other than for purpose of wages, in transit from bank to insured's premises, from insured's premises to bank and between insured's main premises and the insured's branch premises.

f) Cheques, bank drafts, currency notes, treasury notes, postal orders, money orders and postage stamps in transit from the insured's premises to bank.

g) Cash collected by employees from the time of collection and until delivered at the insured's premises or bank on the day of collection.

h) Unpaid wages etc. retained at the insured's premises in burglar-resisting safe, or strong room. (This cover is normally available only for 48 or 72 hours after arrival of the money)

While some insurers cover under the term 'money', coins, currency notes, cheques, bank drafts, postal orders, postal stamps, etc. there are some who cover only coins and currency notes under their normal policy, and cover cheques, bank drafts, etc., by an extension of the policy.

The property referred to under items (a) to (g) above, is covered by some insurers against the perils of robbery, theft or accident.

Note: Any other transit, as required by the insured, may be covered on merits

The property referred to under item (h) is covered against the risk of burglary as defined in the Burglary policy

Cash in safe under item (h) above comprise only unpaid wages, salaries, bonus etc. Cover is granted for 48 or 72 hours, according to insurers practice. However other cash in safe is covered as section II of the policy, subject to a specified sum insured. Alternatively such cash in safe may be covered by insured as a separate item under his Burglary policy. The practice varies.

2. Sum insured

Two amounts are required to be specified separately for each sub-section i.e. for wages, other than wages and collections.

a) Limit of the insurer's liability for any one loss or per carrying limit.

Limit of the insurers' liability for any one loss can be deemed as the sum insured in so far as it determines the limit up to which the insurer can pay against a claim.

In respect of item (a) “cash in transit from bank to insured’s premises” the maximum amount to be carried in any one transit would be obviously higher than carrying in respect of any other item.

This amount represents the maximum amount the insurer will be called upon to pay in the event of a loss. However, the insured has a choice to opt for the sum insured per transit based on his operations.

b) Estimated amount in transit during the year

The estimated amount in transit during the year represents the aggregate of all individual carryings the insured is likely to make during the entire period of insurance, which is ordinarily, one year.

The amount is required for regulating the premium to be paid.

3. Exclusions

The following losses are normally excluded

a) Shortage due to error or omission

b) Losses of cash entrusted to any person other than the insured or an employee of the insured

c) Losses due to the fraud / dishonesty of an employee of the insured (some insurers cover such losses provided they are discovered within 48 hours of their occurrence; others cover it at extra premium)

d) Losses which are covered by other policies

e) Losses arising from war and allied risks

f) Losses arising from riot, strikes and civil commotion and acts of terrorism

g) Losses occurring by the use of keys to the safe unless such keys were obtained by force or threat

h) Money carried under contract of affreightment

i) Theft of money

4. Conditions

Conditions which are normally included in a burglary insurance policy are included in a money insurance policy. In addition to them there is a premium adjustment clause.

The premium adjustment clause

This condition provides that the premium is to be regulated by the amount of money in transit during the period of insurance and for this purpose, the insured shall keep an accurate record of all such transit and allow the insurers at all reasonable times to inspect and verify such record.

Within a month of the expiry of the policy, the insured is required to declare to the insurers in writing, the actual amount of the money in transit during the period of insurance, and if the amount so declared differs from the estimated amount on which the premium is paid at the inception of the policy, the difference in premium is to be met by a further appropriate payment to the insurers or by a refund by the insurers, as the case may.

It is pertinent to note that there is no under insurance or condition of average applicable in money policies. If the amount carried exceeds per carrying limit, the total loss claim will be restricted to the limit per loss/per carrying limit. Under insurance will not be applied even in case of partial losses.

5. Extensions

a) Infidelity of employees

The normal policy covers infidelity of employees if discovered within a specific number of hours. Since the acts of dishonesty by the employees entrusted with the carrying of the property insured (such as staging a robbery en route, or concealing the property and raising a false alarm of snatching of the property by strangers) are not easily provable, the policy is extended at an additional premium to cover any act of fraud or dishonesty committed by the employee or employees carrying the property. This is known as “infidelity extension”.

If this extension is taken, then infidelity is covered even if discovered after the specified number of hours. However, each company can design the cover based on their underwriting philosophy and policy.

b) Riots/Strikes/Terrorism

i. Riot and strike excluding loss or damage due to terrorism activities

ii. Loss or damage by acts of terrorism in conjunction with the riot and strike cover can also be covered at an additional premium.

c) Disbursement risk

i. If any loss arises whilst disbursing the wages, it is not recoverable under the standard policy.

ii. At additional premium, the disbursement risk is also covered under the policy.

iii. The policy would then provide that whilst disbursing wages, any loss of money earmarked therefore, would be paid provided the loss is occasioned by any of the insured perils.

d) Money in safe

i. Money retained in burglar resisting safe in the insured premises is ordinarily covered only for 48 hours after its arrival.

ii. The practice varies between insurers.

iii. Cover for a period in excess of 48 hours can be granted at an additional premium.

e) Money at business counter

i. Money in till or on counter in the insured's premises during the insured's business hours, can be covered at an additional premium.

ii. Such cover is generally granted against the risk of hold up.

iii. Hold up is theft accompanied by violence by any person other than an employee of the insured.

6. Proposal form

A proposal form generally contains questions relating to the following aspects

a) Name, address and business of the proposer

b) Period of insurance

c) Circumstances under which money in transit is required to be covered

d) Estimated amount of money in transit during the period of insurance, for each sub section separately

e) Limit in respect of any one loss. (Single carrying limit)

f) Mode of carrying money, and the safety precautions taken

g) Distance and the area through which money is to be carried

h) Details relating to the safe in which money will be kept in the premises, and the situation thereof

i) Past insurance history

j) Past claims history

7. Underwriting

The following factors are ordinarily taken into consideration for underwriting

a) The maximum amount carried in any single transit

b) The number of employees carrying money, the duration of their service with the insured and whether any of them was involved in any previous default

c) The mode of carriage of money i.e. on foot, on bicycle, in rickshaw, in bus, in taxi or in the insured’s own vehicle

d) The manner in which it is carried i.e. on the body of employee, in a closed and locked bag and whether the bag is attached to the body of the messengers or in a box securely locked

e) Whether armed guards accompany the person carrying the money

f) The places between which the money is carried and location in relation to the neighbourhood

g) The route through which the money is carried, whether it is a thoroughfare or traverses through any sparsely populated or lonely area and whether the route would be varied so as to prevent an ambush

h) The time of the day when the money is carried (this should normally be between 9 a.m. and 5 p.m.)

i) The distance over which the money is carried (this should not ordinarily exceed 25 km)

j) The general condition of law and order in the area through which the money is carried

k) Location of premises & special security features like burglar alarms & armed guard(s) round the clock

l) Accounting methods employed also level of control & supervision etc.

8. Rating

a) Section I

The premium is charged at a rate per mile on the estimated amount of transit during the policy period, subject to adjustment on expiry of the policy

b) Section II

Premium rate is charged at a rate per centt on the sum insured selected. This would be the fixed premium and no adjustment necessary.

9. Claims

The procedure is generally the same as under burglary (business premises) policy. The insured has to substantiate his loss with documentary evidence based on which the claim is settled.

Test Yourself 1

Which of the following is not covered under money insurance?

I. Cash in transit from bank to insured premises, for payment of wages
II. Shortage due to error or omission
III. Cash collected by employees from the time of collection and until delivered at the insured's premises or bank on the day of collection
IV. Cash in transit from the insured's main premises to insured's branch premises, for the payment of wages.

Summary

a) Money insurance is a modified version of burglary insurance.

b) Customary money in transit policy covers certain scenarios involving cash in transit and money held in safe at insured premises.

c) In order to arrive at the sum insured two amounts need to specified i.e. limit of the insurer's liability for any one loss and estimated amount in transit during the year.

d) The following losses are normally excluded shortage due to error or omission, losses which are covered by other policies and theft of money etc.

e) Infidelities of employees, disbursement risk are some of the extensions that can be availed under the money insurance policy.

f) Factors like maximum amount carried in any single transit, time of the day when the money is carried and distance over which the money is carried are some of the underwriting considerations involved.

Answers to TestYourself

Answer 1

The correct option is II.

Shortage due to error or omission is not covered under money insurance policy.

Self-Examination Questions

Question 1

What is not true regarding the premium adjustment clause present in money insurance policies?

I. If the money in transit during the insurance period is greater than the estimated amount, an additional premium is required to be paid by the insured.
II. If the money in transit during the insurance period is less than the estimated amount, a refund is required to be paid by the insurer.
III. Even if the money in transit during the insurance period is greater than the estimated amount, no additional premium is required to be paid by the insured.
IV. Within a month of the expiry of the policy, the insured is required to declare to the insurers in writing, the actual amount of the money in transit during the period of insurance.

Question 2

Which of the following is not likely to be an extension available under the money insurance policy?

I. Infidelity of employees
II. Riot and strike excluding loss or damage due to terrorism activities
III. Disbursement risk
IV. Money lost due to bad accounting practices.

Question 3

Which of the following is a valid underwriting consideration for a money insurance policy?

I. Maximum amount carried in a single transit
II. Mode of transport used for money.
III. Distance over which money travels
IV. All of the above.

Question 4

Under Section I of money insurance policy, the premium is charged at _________.

I. Rate per amount on the sum insured selected
II. No premium is charged under Section I
III. Rate per mile on the estimated amount of transit
IV. A fixed rate

Question 5

The proposal form in a money insurance policy does not elicit which of the below mentioned information?

I. Name, address and business of the proposer
II. Health of the proposer
III. Period of insurance
IV. Limit in respect of any one loss

Answers to Self-Examination Questions

Answer 1

The correct option is III.

If the money in transit during the insurance period is greater than the estimated amount, an additional premium is required to be paid by the insured.

Answer 2

The correct option is IV.

Money lost due to bad accounting practices is not likely to be an extension available under the money insurance policy.

Answer 3

The correct option is IV.

Maximum amount carried in a single transit, mode of transport used for money and distance over which money travels are all valid underwriting considerations.

Answer 4

The correct option is III.

Under Section I of money insurance policy, the premium is charged at a rate per mile on the estimated amount of transit.

Answer 5

The correct option is II.

Health details of the proposer are not required in the proposal form.

CHAPTER 6

FIDELITY GUARANTEE

Chapter Introduction

The chapter explores the world of fidelity guarantees. We look at various aspects of the fidelity guarantee business such as commercial fidelity guarantees, court bonds and Government bonds. The chapter starts with discussing commercial fidelity guarantees with respect to coverage, period of discovery, general conditions and the type of policies available in the market. Then we look at the underwriting considerations involved and the hazardous risks that need to be guarded against.

With reference to court bonds we look at administration bonds and liquidator's and receivership bonds. Finally we look at Government bonds like customs bonds and excise bonds

Learning Outcomes

A. Commercial fidelity guarantees
B. Court bonds
C. Government bonds

Look at this Scenario

Men are as faithful as their options

Samit owns a chain of fast food restaurants “Magic Foods”. A manager of the Kharadi branch colluded with a fellow employee in the restaurant to manipulate sales and defraud the company. The pair stole from the company by deleting customer bills and pocketing the cash against them. An anonymous tip regarding the theft resulted in the company hiring a private investigator. The private investigator uncovered the scheme and determined that it had been taking place for nearly two years.

Result: The total loss to “Magic Foods” was to the tune of Rs 3 Lakhs

The economic downturn of the recent past has bought to the fore dishonesty of employees amongst other aspects. This warrants attention on “Fidelity Insurance” policies as a way to deal with in-house fraud. Fidelity insurance covers losses resulting from fraud, theft or other crimes perpetrated by employees, whether they are acting alone or in collusion with others. In this era of ponzi schemes and rogue traders it becomes all the more important that one consider fidelity insurance as a means to mitigate risks arising from employee fraud and dishonesty.

A. Commercial fidelity guarantees

Introduction

This policy covers the employer in respect of any direct financial loss which he may suffer as a result of employees’ dishonesty. The majority of policies issued are to commercial and manufacturing firms.

Two features that distinguish fidelity guarantee business from other types of accident insurance business are that there are three, instead of two, parties concerned, though the contract is entered into between only two of them (viz., the employers and the insurers), and that both the law of insurance and the law of suretyship are relevant.

The basis for a fidelity guarantee originates from an employer and employee relationship or a fiduciary relationship where confidence or trust reposed plays a crucial part.

Broadly, fidelity guarantee business can be divided into the following sections:

- ✓ Commercial fidelity guarantees
- ✓ Court bonds
- ✓ Government bonds

Let us look at the first section with respect to various parameters

1. Commercial fidelity guarantees

a) Coverage

The operative clause of the policy generally reads as follows

"If the insured shall sustain direct pecuniary loss caused by act of **FRAUD** or **DISHONESTY** committed by the employee at any time during the period of insurance stated herein ...... the insurer will indemnify the insured in respect of such loss but not exceeding the sum specified in the policy, provided that such loss shall have occurred in connection with employees occupation and duties ...... during the uninterrupted continuance of employment."

It should be noted that:

i. The cover granted is against a direct pecuniary loss and not a consequential one

ii. The loss should be in respect of moneys securities or goods of the insured

iii. The act should be committed in the course of the duties specified

iv. If the employee guaranteed under the policy had left the services of the employer and was re-engaged by him, no liability attaches to the policy, unless the consent of the insurers was obtained

v. No loss that may have been caused by bad accountancy is payable, the loss must be supported by evidence of any of the specified acts of dishonesty

Section 17 of the Indian Contract Act provides a definition of fraud, but a precise definition of the term has not been possible even by courts of law. However, fraud is understood as "**obtaining an advantage by unfair or wrongful means.**"

b) Period of discovery

Unlike other classes of business, fidelity guarantee policies stipulate time limit for discovery of losses. This is so because the loss can occur over a long period without discovery. Investigation of such losses would be troublesome and recoveries may become legally and practically difficult.

The customary time limit provided is that the act or acts insured against should be:

- ✓ Discovered not later than twelve months after the resignation, dismissal, retirement or death of the employee, or
- ✓ Not later than 12 months after the termination of the policy, whichever be the earlier

c) Conditions

Some of the important conditions are considered below

i. Application of control measures

- ✓ The employer has to ensure that all precautions, checks and other control measures to secure accuracy of accounts are properly applied and supervision over the employee exercised.
- ✓ He has also to advise the insurers immediately of any change in the nature of duties of the employee or the circumstances and conditions of employment, so that the insurers may use their judgment to continue to be on risk or to determine the policy or to levy an additional premium, if found necessary.
- ✓ A breach of this condition relieves the insurers of all liability under the policy.

ii. Notice of claim

- ✓ The employer must give immediate notice to the insurers on the discovery of any insured act committed by the employee.
- ✓ Within three months of the initial notice, the claim has to be lodged with the insurers accompanied by full particulars and proof satisfactory to the insurer.
- ✓ When the loss is made good, the policy has to be delivered upto the insurers for cancellation and discharge.
- ✓ This is so in respect of an individual policy. However, if the policy is a floater or collective or blanket, it shall only cease to cover the defaulting employee or employees on and from the date the loss is discovered.

iii. Prosecution

- ✓ The insurers reserve their right to insist on criminal prosecution of the employee, bearing upon themselves the expenses thereof in the event of a conviction.
- ✓ The purpose of this condition is to put to the test of law the allegations of an employer and to bring to books, the defaulting employee so that it may be a deterrent to other employees.

iv. Subrogation

After satisfaction of a claim, the insurers are entitled to take over the rights of the employer against the employee as far as the loss is concerned, and prosecute all claims and exercise all rights of action against the employee, if necessary in the name of the employer, but at the cost of the insurers themselves.

v. Contribution

- ✓ The policy would pay only pro rata with any other guarantee, whether by policy or otherwise, held by the employer on the date of loss.
- ✓ The employer is bound to disclose to the insurers the existence of all such guarantees and the termination or expiry thereof.

vi. Termination of policy

- ✓ The insurers are at liberty to cancel the policy at any time after due intimation to the employer, returning on demand a proportion of the premium corresponding to the unexpired period of the policy.

vii. Arbitration

- ✓ The disputes relating to the amount of claim only (liability being admitted), are to be referred to arbitration.
- ✓ The making of an award shall be a condition precedent to any right of action against the insurers.

2. Types of policies

The following types of policy are in general demand:

a) Individual policy

This type of policy is used where only one individual is to be guaranteed.

b) Collective policy

Where the entire staff or a number of selected individuals are to be covered, a collective policy is issued. A collective policy comprises a schedule containing the names of the employees to whom the guarantee applies with a note of the duties of each employee.

The amount of guarantee of each employee is specified in the schedule against his name. Frequent alterations may have to be made in the schedule because of additional appointments, terminations, etc.

These changes can be made easily by an endorsement altering the schedule, without the necessity of issuing a fresh policy.

c) Floating policy or floater cover

This is an extension of the collective form of policy in which the name and duties of the individual to be covered are inserted in a schedule, but instead of individual amounts of guarantee, a specified sum of guarantee is "floated" over the whole group. A claim in respect of one employee will, therefore, reduce the guarantee by the amount until renewal, unless the original sum is reinstated by payment of an extra premium.

Example

In many trades, it is difficult for an employer to estimate the possibilities of default if there is manipulation of the books and account by any one employee or more employees acting in collusion, and the extent of any loss, which might arise in such circumstances. The employer may also be not in a position to attribute such loss to one employee more than another. Apart from assessing their respective opportunities, it cannot be foreseen which employee is likely to exercise the greatest ingenuity in concealing defaults till they have reached such proportion as could no longer be concealed.

A floating policy relieves the employer of the necessity of fixing what he considers to be suitable individual amounts of guarantee.

However, in fixing the floating sum to be guaranteed, the employer has to ensure that the sum would be adequate against the largest possible single loss that may arise as a result of default by anyone employee or more employees acting in collusion.

d) Position policy

This is similar to a collective policy with the difference that instead of using names, the "Position" is guaranteed for a specified amount, so that a change in the person holding the position does not affect the cover.

It is to be noted that the liability of the insurance in respect of each position remains limited to the amount guaranteed for the position, irrespective of the number of persons acting in that position. Instead of a specified amount for each position, a single amount of guarantee for all positions may be "Floated".

e) Blanket policy

This policy covers the entire staff without showing name or position. No inquiries about the employees are made by the insurers. Such policies are only suitable for an employer with a large staff and the organisation to make adequate inquiries into the antecedents of his employees. The references that the employer obtains must be available to the insurers in the event of a claim.

f) Excess floating policy

This is a combination of collective policy and a floating policy. An employer may safeguard himself against loss of an unforeseen amount by reason of default continuing for a long time by unusually ingenious methods of concealment by having a floating guarantee for any loss in excess of the individual amounts set out in the schedule.

3. Proposal form

a) Employers' forms

Several forms are in use for the various classes of fidelity guarantees. For commercial fidelity guarantees, the employer has to complete an employers' statement. This statement may be likened to the proposal form as it forms the contract between the employer and the insurers.

The form generally contains questions relating to the following:

- ✓ Legal status of the employer, e.g. sole trader, partnership etc.
- ✓ Amount of guarantee required
- ✓ Details of any other security held by the employer
- ✓ References
- ✓ Details of present and past service
- ✓ Duties assigned to the employee, and whether he has any outside duties
- ✓ Whether the employee will have money in his possession during his duty period? If so, the manner in which he will make payments and the likely amount that will remain with him
- ✓ Whether the employee will have charge of stock? If so, the nature and amount of stock, and system of maintaining stock records
- ✓ System of check and method of supervision
- ✓ Remuneration of the employee
- ✓ Employees' debts or liabilities, if any
- ✓ Employees' previous defalcations, if any

At the end of the form, is the declaration similar to the one in other classes of miscellaneous (accident) insurance forms.

b) Applicants form

The applicant (the person to be guaranteed) has to fill in an applicant's form which requires in addition to his name, age and address, other details such as:

- ✓ The name, address and the business activities of the employer
- ✓ The position to be covered by the guarantee
- ✓ The names and addresses of references
- ✓ The salary or other remuneration to be received
- ✓ Details of past guarantees
- ✓ Also details of the applicant's status (single or married) and dependents, if any
- ✓ The extent of debts, private income, whether or not the applicant has ever been bankrupt or insolvent
- ✓ Details of past employment, whether he is a householder and owns furniture Details of his life assurance are also required

This information enables the insurers to make full enquiry into the moral hazard of the risk proposed.

c) Private referees form

At one time, great significance was attached to private referees form. This is a form which may be sent to persons whose names and addresses have been supplied by the applicant.

The object is to obtain a reference for the applicant. The form contains questions about the extent to which the referee knows the applicant, whether he is related to him, applicant's character and habits, and the general opinion of the referee about the applicant. The form has little underwriting value because any person can get two friends to vouch for him.

d) Previous employer's form

A reference for the applicant from all the employers for the previous five years is an important underwriting tool to the insurers. This form is sent with the main object of ascertaining the applicant's integrity and honesty, the extent of his duties with the previous employers and the reasons for leaving them, and whether he was guaranteed.

e) Collective proposals

For collective, floating and blanket policies, individual applicants' forms are dispensed with. The employer has to set out in a statement all such particulars relating to the employees to be covered as are required for individual policies.

For convenience, the employer may give the details category wise, say, employees not having responsibility for money and / or stock, outdoor employees (salespersons, delivery men, etc.) and office staff. The proposal form has to mention very clearly the system of supervision in force and the inquiries made by the employer before engaging the staff. Against each employee or position or the entire group, as the case may be, the amount to be guaranteed has to be specified.

4. Underwriting considerations

The main underwriting considerations include:

- ✓ How far the system of check and control measures is effective?
- ✓ What supervision is exercised over the employee?

To improve the risk, the insurers may make suggestions to the employer relating to tightening up the system of check. But where the system is fundamentally unsatisfactory, no piecemeal improvements are of any avail and entirely new system may have to be agreed upon.

A question is often asked as to what is an effective system of check and method of supervision. Although it is difficult to lay down any precise norms for this, the following are some of the features which may be considered good for such a system:

a) Money should not be allowed to accumulate in the hands of any one employee to an unreasonable extent.

b) All moneys collected on behalf of the employer should be paid over daily or at short intervals.

c) Employees engaged in handling money should not also be employed upon the books or records in which the money is accounted.

d) Employees collecting money should not be allowed to make any disbursements there from.

e) All payments should be made by crossed cheques only.

f) Receipts for all money collected should be made on printed and numbered forms out of a book with counter foils.

g) The record should provide documentary evidence which places the responsibility for irregularities at the right place.

h) The responsibility for the correctness of every payment should be shared by at least two persons. IN other words, there should be dual control.

i) The entries in cash book should be checked at least once a week with original documents.

j) The employers' books should be balanced monthly.

k) Cash in hand should be checked daily.

l) There should be a regular professional audit by a firm of recognised standing.

m) There should be independent surprise check at regular and frequent intervals, of all money transactions.

a) Moral hazard

The moral hazard of the proposer/person to be guaranteed is another important factor to be considered. If the person to be guaranteed is one with long experience, it is unlikely that he would act in a manner which may result in loss of employment and criminal prosecution.

The loss of his service benefits, apart from employment, is a sufficient deterrent against any such default on his part. On the contrary, a temporary hand with no likely financial loss to the individual by way of gratuity, provident fund and the like may have a temptation to make quick money.

b) Additional precautions

It is essential when investigating the system of check where a computerised system operates, to ask a number of additional questions such as:

i. Is there an independent check of the completed programs / and / or modules and how often?

ii. It is possible for the program to be run by a single operator?

iii. Do system analysts and data preparation have access to the computer room?

iv. Is anyone responsible for data preparation allowed access to control records?

v. How program changes are authorised and records of changes kept?

vi. Is a self checking system incorporated for internal control?

vii. Is there a rotational system for operational duties?

viii. What functions do external auditors exercise in connection with the system?

c) Hazardous risks

Not all risks proposed for insurance are accepted at normal terms. Certain risks are considered not good for insurance because of a very high degree of hazard associated therewith and the high incidence of claims. A representative list of such risks is given below

i. Collection agents whose financial limits are disproportionately high compared to their remuneration and the security deposit given by them.

ii. Jewellery salespersons

iii. Cashiers in eating houses, cinema houses and other places of entertainment

iv. Estate agents

v. Treasurers of societies or associations

vi. Employees of bullion merchants and of works of art dealing in antiques, firms and other valuables

5. Rating

The premium under individual and collective policies is charged as a rate per cent of the amount guaranteed, subject to a minimum premium. The factors ordinarily taken into consideration for determining the rate of premium are:

- ✓ The amount of guarantee
- ✓ The type of occupation
- ✓ The system of check and the method of supervision

The rate per cent varies from risk to risk depending upon the merits of each case. Generally speaking, it ranges from 0.20 per cent to 1.00 per cent.

The premium for a floating policy comprises a percentage charge and a per capita charge. The percentage charge is applied on the amount guaranteed and the per capita charge applied on the number of employees to be guaranteed.

Example

If a floating policy has to be issued covering 200 employees for an amount of Rs.2,00,000 and the percentage charge is, say, 1 percent and per capita charge Rs.5. What would be the premium payable?

Premium for floating policy = Percentage charge+ Per capita charge
= (1% of 200000) + (5*200)
= 2000+1000
= 3000 Rs

A minimum premium is always insisted upon because the expenses for scrutiny of a proposal, issue of policy, stationery cost etc. This would be the same whether the cover is for Rs.1000 or Rs.1, 00, 000.

6. Period of insurance

The policies are customarily, issued for a period of 12 months. Short period covers are seldom issued, as insurers consider such covers as a selection against them. Furthermore, the exposure of risk under short period policies is considerably higher than that under annual policies.

7. Extensions

It is not unusual for employers to ask for extending the conventional policy to cover negligence or lack of care on the part of the employee. Government departments, the Posts and Telegraphs Directorate, the Railways and many public sector institutions demand such extension.

Since the terms 'negligence' and 'lack of care' do not admit of precise definitions, it is not a safe underwriting proposition to cover them. Nevertheless some insurers do cover such risks.

8. Claims

A fidelity guarantee claim form usually contains questions relating to:

i. Name of the defaulting employee, and his last known address

ii. Date on which the loss was discovered

iii. Period for and the manner in which the embezzlement has been carried on, and concealed

iv. Previous irregularity, if any, in the defaulting employees account
v. The extent of loss

vi. Whether the matter is reported to the police and if so, the date, time and place of reporting

vii. Security held by the insured, in respect of the defaulting employee

viii. Amount of salary, commission or other remuneration or allowance that may be due from the insured to the defaulting employee

ix. Particulars (if known to the insured) of property, furniture or other effects belonging to the defaulting employee

Investigation of claims

On receipt of a claim form duly completed, investigation of the claim is undertaken in order to ascertain the following:

i. That the loss was notified immediately on discovery

ii. When the loss was known and for how long defaults have been going on

iii. Whether all material facts were disclosed by the employer in the proposal

iv. Whether the system of check and method of supervision as stated in the proposal has been maintained?

v. Particulars of any circumstances which have arisen since the policy was issued which might have the effect of relieving the insurers of liability

vi. How, when and under what circumstances the default came to light?

vii. Whether there is any salary or commission due to the employee, and if so how much?

viii. Particulars of any other guarantee or security held by the employer

ix. The methods adopted by the employee to conceal his default and defeat the system of check and method of supervision and the reasons as to how the shortage escaped the notice of audit

The investigation of fidelity guarantee claims is entrusted to independent surveyors preferably with accountancy qualification e.g. Chartered Accountants. The surveyor would conduct a detailed investigation into the circumstances of the loss which would involve mainly the examination of the books of accounts of the insured employer.

This process would take a certain amount of time and, in the meanwhile, a certain exercise of preliminary nature is carried out immediately on receipt of a notification of loss. This may be carried out either by the surveyor or an official of the insurance company.

a) Preliminary steps

If the employee alleged to have committed the acts of default or dishonesty and is absconding, action is taken to trace his whereabouts with the help of his relatives, friends, office colleagues, etc. The proposal form may indicate the names of the referee whose help may also be enlisted in locating the defaulting employee.

If the employee is available, a personal interview is conducted to ascertain the true state of affairs. If the employee makes an admission to the act of dishonesty, it is necessary to elicit information regarding the commencement of his acts, the methods used by him and the total amount defalcated by him.

The question of recovery is to be pursued. More often than not, the defaulting employee may not have any assets at all, because difficult financial circumstances are usually the main cause of default. However, it is quite possible that he may have fixed or other assets, and he may even volunteer to pay the defalcated amount in full, either in lump sum or in instalments.

b) Prosecution

Whether the defaulting employee is absconding or available, the question of prosecution is to be decided. Under some policies, insurers reserve the right to insist on criminal prosecution of the employee, the costs of which are borne by them in the event of a conviction. The payment of legal costs is in addition to any loss that may be payable under the policy.

While the employers do not normally wish to prosecute their employees, the insurers also recognise the fact that the prosecution inevitably diminishes the chances of effecting recovery. Prosecution is therefore normally not insisted upon in actual practice.

On the other hand, prosecution is sometimes insisted upon when it is considered necessary to prove that the loss did in fact arise from dishonesty as distinct from bad accountancy or where the circumstances are such that the cause of the loss is not clear, so that prosecution would confirm that the loss arose from an offence which is covered by the policy.

9. Compliance with policy conditions

An important condition in the policy relates to methods of check and supervision. It reads as follows

“Unless the company shall consent in writing to any alteration, the company shall not be liable to make any payment hereunder if the nature of the business of the employer or the duties or terms of service of the employee shall be changed or the precautions and checks for securing accuracy of accounts and stocks stated in the aforesaid proposal and any written statement made in connection therewith shall not be duly observed.”

According to this condition, the loss will not be paid if the employer adopts new and less efficient methods of supervision or when he fails to exercise proper supervision. If there is a change in the nature of the business since the policy was effected, insurers would be relieved of liability.

The claim would also be prejudiced if there is change in the duties or terms of service of the employee.

Example

If an employee is required to handle larger amount of cash, consequent on promotion or otherwise, it would adversely affect liability under the policy.

However, routine promotions or temporary redistribution of work, etc. due to administrative exigencies, will not affect the risk.

However, a reasonable interpretation is placed on the provisions of this condition.

The provisions of the policy relating to the period of discovery should be specially noted. It is not enough if the loss takes place during the policy period it has also to be discovered within the discovery period specified in the policy.

10. The amount payable

The policy provides that the amount payable by the insurer in respect of the defaulting employee shall not exceed the amount of indemnity stated in the schedule of the policy in respect of such employee.

The amount of claim payable under the policy is affected by the following considerations:

- ✓ Any sum of money which, but for fraud or dishonesty of an employee, would become payable to him, shall be deducted from the amount of the loss before a claim is made under the policy.

- ✓ Thus any salary or commission or any other money due to the employee from the employer has to be deducted from the amount of the loss under the policy.

However, it is important to bear in mind that this insurance is a contract of indemnity. Therefore, compliance with this condition is not enforced where the loss is more than the limit of indemnity under the policy. In other words, if the amount of loss exceeds the sum insured, the deduction is made from the amount of loss and the insurers would be liable for the balance up to the limit of indemnity.

In such cases, the insurers receive benefit of only the balance which is left after the salaries and other dues are adjusted by the insured to make up the difference between his loss and the amount recovered under the policy.

It should be noted that the question of under insurance is not relevant in fidelity guarantee insurance. It is not possible to decide on the amount of full insurance, and hence the principle or pro-rata average is not applied.

A policy condition provides that if at the time of any loss, there exists any other security or guarantee of insurance covering the same loss, the insurer shall not be liable to pay or contribute more than its ratable proportion of any sums payable in respect of such loss.

Under floating policy, it is provided that any amount paid to the insured in any one period of insurance is accounted in reduction of the amount of indemnity stated in the policy, so that the amount payable by the insurers in respect of all losses in any one period of insurance shall not exceed the limit of indemnity.

It may be noted that under a floating policy, the insured has no right of recovery until each defaulting employee has been identified by name.

11. Action after settlement

Immediately following the discovery of any act on the part of any employee in respect of which indemnity is granted, the indemnity shall, so far as any further such acts on the part of such employee, be at an end.

i. Under individual fidelity guarantee insurance, the policy is cancelled on payment of a claim.

ii. Under a collective policy, the name of the defaulting employee is deleted.

iii. Under a floating policy, the cover ceases so far as the defaulting employee is concerned.

Once a claim is paid, it cannot be reopened. However, if further loss comes to light subsequently after settlement, insurers may consider the claim strictly on an ex-gratia basis.

The employer is entitled under common law to recover the amount of the loss from the defaulting employee, or if he dies, from his estate. Under the law of subrogation, the insurers, upon payment of the loss, are entitled to take over these rights of recovery.

12. Special covers

In recent years there have been trends to cover the risks of non-performance in the fidelity guarantee class of business.

Example

A flour miller entrusted with a certain quantity of food grains under a contract, agrees to give a minimum percentage of out-turn of the finished product.

If he fails, the pecuniary loss suffered by the principal becomes payable under the policy.

It has been rightly held that performance risks do not come within the ambit of fidelity guarantee business, as they resemble solvency risks to be insured under a credit guarantee policy.

Another offshoot of the fidelity guarantee business is guaranteeing a minimum period of service an employee has agreed to render an employer in return for the training imparted to him by the employer or the money expended by the employer in enabling the employee to acquire qualifications.

In the event of failure by the employee to honour his commitment, the policy has to pay the amount guaranteed. Here again, it is doubtful whether this type of policy falls within the province of fidelity guarantee business though some insurers are inclined to treat breach of minimum service conditions a default and write the business in the fidelity guarantee department.

Test Yourself 1

Choose the incorrect option. Fidelity guarantee business comprises of ___________________.

I. Commercial fidelity guarantees
II. Court bonds
III. Government bonds
IV. Life insurance

B. Court bonds

1. Administration bonds

When a person dies intestate, that is, without making a will, or when the will made by a person is not in order, or when an executor named in a will is not in a position, or refuses, to discharge his duties, the court appoints an administrator for winding up the affairs of the deceased.

The person who is appointed as an administrator has to furnish a surety for the proper discharge of his duties and for the proper accounting of the deceased's estate.

The bond issued by insurers in favour of the court guaranteeing the proper discharge of duties by the administrator and the proper accounting of the estate of the deceased is known as an **administration bond**.

The amount of the bond is stipulated by the court making the appointment, and it depends upon the value of both the real and the personal estate of the deceased.

The administrator may be an individual or a corporate body, but whoever he is, he would be thoroughly screened by the court before making the appointment.

All the same, insurers who have to be satisfied about the bonafides of the applicant for the bond have to make exhaustive enquiries before accepting the proposal.

Quite often, the administrator chooses to administer the estate with the assistance of a firm of solicitors. Hence, the insurers guaranteeing the administrator should also make enquiries about solicitors so appointed before issuing the bond.

Rating

- ✓ The premium is charged as a rate per cent of the amount of the bond.
- ✓ The rate per cent is based on the value of the estate to be administered, the duration of the administration and the complexities involved.

The bond may be issued for annual periods renewable automatically after each annual expiry or for the entire period of administration.

Unlike a commercial fidelity guarantee policy, an administration bond is a specialty contract to be executed under seal and it attracts stamp duty higher than the ordinary policy. Hence, along with the premium, the stamp duty is also collected from the administrator.

As a rule, a counter guarantee is insisted on. The counter guarantee may be issued by the administrator solely, or he may be joined by co-guarantors, if so required by the insurers. The counter guarantee has also to be executed as a specialty contract attracting the same stamp duty as the original bond.

2. Liquidator's and Receivership bonds

Estates which are under dispute and referred to the court for adjudication are temporarily placed under the care of a receiver during the pendency of the case. The receiver has to administer the estate and render to the court, proper accounting of the estate when under his care.

A receiver may also be appointed to administer the estate:

- ✓ Of a minor who is placed under the Court of Wards till he attains majority, **or**
- ✓ Of a person who is pronounced mentally incapable

In all these cases, the receiver has to produce to the court, a bond guaranteeing his honest and faithful accounting of moneys or estate entrusted to his care and agreeing to pay the amount guaranteed in the event of any default on his part.

Liquidators are appointed by the court to deal with the estates of persons who have filed insolvency petition before the court or are declared insolvent by the courts.

Unlike the receivers, the liquidators have to meet the claims of the insolvent's estate from his debtors. The liquidator has to produce a bond guaranteeing his honest and faithful accounting to the estate.

Both the bonds are specialty contracts and are to be underwritten in the same manner as administration bonds.

3. Differences between Commercial guarantees and Court bonds

Commercial guarantees	Court bonds
Commercial guarantees are simple contracts	Court bonds are specialty contracts executed under seal
The proposal made by the employer is the basis of a commercial guarantee, and it is deemed to be incorporated in the policy, and hence any misrepresentation or inaccuracy in the proposal will make the policy void or void able	In court bonds, the proposal does not form part of the contract, and hence the contract is not affected even if the proposal contains materially inaccurate particulars

The commercial guarantee is subject to conditions the breach of which may render the policy void or void able	No such conditions are incorporated in a court bond
In order to obtain a payment under a commercial guarantee, the insured has to prove to the satisfaction of the insurers that he has suffered a pecuniary loss arising out of the insured contingencies.	In a court bond, a demand from the appropriate authority of the amount guaranteed for failure in the discharge of duties or obligations, by the persons guaranteed is sufficient
Commercial guarantees are normal annual contracts which the insurers may renew at their option	Court bonds are automatically renewable, unless the insurers give sufficient notice to the court of their intention not to renew the bond
In a commercial guarantee the insured is not a party to the contract	In a court bond, the person guaranteed is a party to the contract
Commercial guarantees are stamped with the ordinary insurance stamps	Court bonds have to be stamped in accordance with the stamp duty prescribed for deeds and documents, under seal
The cover under a commercial guarantee is restricted in scope as compared with that under a court bond.	The cover under court bond is not as restricted as a commercial guarantee.
Quite often, the assistance of the insured is sought under commercial guarantees by the insurers to enforce their rights of subrogation.	Under court bonds recoveries are sought to be made under the counter guarantees executed in favour of the insurers by the person guaranteed.
Commercial guarantees prescribe time limits within which the insured has to intimate defaults to the insurers.	Court bonds are not subject to this restriction of time limit

Test Yourself 2

Choose the false statement.

I. Court bonds are specialty contracts executed under seal
II. Court bonds are automatically renewable
III. Court bonds attract higher stamp duty as compared to commercial fidelity contracts
IV. Court bonds attract lower stamp duty as compared to commercial fidelity contracts

C. Government bonds

Government bonds like court bonds are specialty contracts. The two important types of government bonds issued are the Customs bonds and Excise bonds.

1. Customs Bonds

Customs bonds are to be executed by importers in favour of the Controller of Imports and Exports agreeing, inter-alia, to perform the conditions stipulated in the Import Trade Control Regulations. A representative list of importers who have to execute customs bonds is given below:

a) Persons or corporate bodies who are permitted to import motor cars for their personal use
b) Manufacturers who import essential raw materials on which a concessional customs duty is levied provided they produce an end-use certificate that the imported materials have been consumed in the production of goods originally declared by the manufacturer
c) Suppliers of industrial chemicals imported in special containers who have to export back the containers after using the content

2. Excise Bonds

Excise bonds are to be executed by manufacturers in the country in respect of finished products assembled or produced in the country, which are dutiable. The excise duty is to be paid to the Excise Department in lieu of which a bond may be executed. Manufacturers of alcohol, sugar, textiles, automobiles, etc. are required to execute the bond.

As in administration bonds, a counter guarantee is insisted upon. The period of customs bonds may vary from a few months to a period as long as seven years, depending upon the materials or goods imported. Hence it is a long term contract, Excise bonds, on the contrary, are mostly annual contracts.

Excepting for the authorities to whom court bonds and government bonds are issued, they are similar. Hence, underwriting precautions for both are also similar. All the differences which exist between court bonds and commercial guarantees also exist between government bonds and commercial guarantees.

Test Yourself 3

Choose the correct statement.

I. Excise bonds are to be executed by manufacturers in the country in respect of finished products assembled or produced in the country, which are dutiable.
II. Government bonds are simple contracts
III. Custom bonds are mostly annual contracts whereas excise bonds are long term contracts with periods varying from few months to seven years
IV. None of the above

Summary

a) Fidelity guarantee covers the employer in respect of any direct financial loss which he may suffer as a result of employee's dishonesty.

b) Fidelity guarantee business can be divided into commercial fidelity guarantees, court bonds and Government bonds.

c) Unlike other classes of business, fidelity guarantee policies stipulate time limit for discovery of losses.

d) Application of control measures, notice of claim and subrogation etc. are considered before entertaining a claim under fidelity guarantee policy.

e) Several forms are in use for the various classes of fidelity guarantees. These include employer's form, applicant's form and private referees form etc.

f) The main considerations for fidelity guarantee are how far the system of check and control measures are effective and what supervision is exercised over the employee.

g) The premium under individual and collective policies is charged as a rate per cent of the amount guaranteed, subject to a minimum premium.

h) The bond issued by insurers in favour of the court guaranteeing the proper discharge of duties by the administrator and the proper accounting of the estate of the deceased is known as an administration bond.

i) Government bonds like court bonds are specialty contracts. The two important types of Government bonds issued are the customs bonds and excise bonds.

Answers to TestYourself

Answer 1

The correct option is IV.

Fidelity guarantee business comprises of commercial fidelity guarantees, court bonds and Government bonds.

Answer 2

The correct option is IV.

Court bonds attract higher stamp duty as compared to commercial fidelity contracts

Answer 3

The correct option is I.

Excise bonds are to be executed by manufacturers in the country in respect of finished products assembled or produced in the country, which are dutiable.

Self-Examination Questions

Question 1

Commercial fidelity guarantee covers against _____________.

I. A direct pecuniary loss caused as a result of fraud by an employee
II. A consequential loss caused as a result of fraud by an employee
III. Both I and II
IV. A loss arising out of bad accountancy

Question 2

Which of these conditions are examined before entertaining a claim under commercial fidelity guarantees?

I. Application of Control Measures
II. Notice of claim
III. Prosecution
IV. All of the above.

Question 3

Which of these policies is likely to have the largest number of people insured under a single policy?

I. Individual commercial fidelity guarantee
II. Collective commercial fidelity guarantee
III. Blanket commercial fidelity guarantee
IV. Floating commercial fidelity guarantee

Question 4

__________ is represents a hazardous risk?

I. Jewellery salespersons
II. Estate agents
III. Middle class employee
IV. Both I and II

Question 5

Choose the false statement regarding amount payable by the insurer in respect of the defaulting employee.

I. Such amount shall not exceed the amount of indemnity stated in the schedule of the policy in respect of such employee
II. Such amount can exceed the amount of indemnity stated in the schedule of the policy in respect of such employee
III. Any money owed to the employee is deducted from the loss before making a claim
IV. None of the above

Answers to Self-Examination Questions

Answer 1

The correct option is I.

Commercial fidelity guarantee covers against a direct pecuniary loss caused as a result of fraud by an employee.

Answer 2

The correct option is IV.

Application of control measures, notice of claim and prosecution of the employee are examined before entertaining a claim under commercial fidelity guarantees.

Answer 3

The correct option is III.

Blanket commercial fidelity guarantee is likely to have the largest number of people insured under a single policy.

Answer 4

The correct option is IV.

Jewellery salespersons and estate agents represent a hazardous risk.

Answer 5

The correct option is II.

Amount payable by the insurer in respect of the defaulting employee shall not exceed the amount of indemnity stated in the schedule of the policy in respect of such employee.

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SUGGESTED READING: AVAILABLE AT AMAZON

- MCQ Guide Book for Miscellaneous Insurance by Dr.Rakesh Agarwal

- Fellowship & Associateship Exam (III) IC 78 Miscellaneous Insurance Model Practice Test: (Practice Series Book 1) by P Ansh

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CHAPTER 7

BANKERS INDEMNITY AND JEWELLERS BLOCK INSURANCE

Chapter Introduction

With the vast expansion of banking business in the country the incidence of white collar crimes e.g. fraud, dishonesty etc. has also increased. The Bankers Indemnity insurance, which is a combination of several specific covers provides protection to the banks against such losses.

From 01/04/94 the Bankers' Indemnity insurance is not governed by Tariff. Therefore each company has devised its own guidelines for underwriting of this business. However, the general features of the tariff have been maintained to a large extent. The discussions in this chapter are accordingly of a general nature and not necessarily practices followed by any company.

Learning Outcomes

A. Bankers' blanket indemnity insurance
B. Jewellers block insurance

Look at this Scenario

ABC Bank is a very large bank. It has huge amount of public deposits and securities belonging to the public. The bank has systems to ensure protection of public money and avoidance of the bank's reputation resulting from losses of the funds it holds. Such losses can arise because of various reasons such as dishonesty, forging, fraud, etc.

ABC Bank also has a Bankers' blanket Indemnity Insurance policy. This policy has a wider scope of cover and provides indemnity for most of the sophisticated fraudulent activities banks are faced with.

A. Bankers' blanket indemnity insurance

In order to understand this insurance, it is necessary to understand the definition of a few terms.

Definitions

a) **"Money"** as used in this policy is deemed to mean bank notes (signed and unsigned), bullion, coins, currency, jewellery, precious stones, ornaments pledged with the insured, postage and revenue stamps (uncancelled) and stamp papers.

b) **'Securities'** as used in this policy is deemed to mean air consignment notes, bank money orders, bills of exchange, bill of lading, bonds, certificates of deposit, certificate of shares / stocks, cheques, coupons, debentures, demand drafts, express postal orders, fixed deposit receipts issued by the insured, lorry receipts, lottery tickets, postal receipts, promissory notes, railway receipts, time drafts, warehouse receipts, mail transfers, travellers cheques and drafts and all other instruments of a negotiable character in respect of which, if negotiated by any holder, the insured would have no recourse against the innocent holder thereof.

c) **'Employee'** is deemed to mean all existing employees (officers, clerks and sub-staff) whether permanent or temporary, whole time or part time, on contract or otherwise, including apprentices, on the salary roll of the bank at all its offices, but shall not include any director or partner other than salaried.

1. Indemnity under the policy

The policy provides indemnity for any direct loss of money and / or securities sustained by the insured and discovered during the period specified in the policy. The policy provides indemnity against the following contingencies:

a) On premises

i. Money and / or securities for which the insured is responsible or the custody of which he has undertaken.

ii. It also includes money and / or securities which are in his own premises or on the premises of his bankers that is lost, destroyed or otherwise made away with by fire, riot and strikes, burglary, house-breaking, theft, robbery or hold up.

iii. The cover operates even if any of these contingencies are brought about by the employees of the insured. However, the claim if any will be considered under the Section of Dishonesty

b) In transit

i. Money and / or securities that is lost, stolen, mislaid, misappropriated or made away with, while they are in transit in the hands of employees.

ii. The cover is operative even if the loss is caused by the negligence or fraud conducted by the employees of the insured. (The negligence however is an exclusion under the policy, otherwise.)

c) Forgery or alteration

This can be caused by:

i. The payment of bogus, fictitious, forged or raised cheques or drafts,

ii. The payment of genuine cheques, drafts or fixed deposit receipts bearing forged endorsements, or

iii. The establishment of any credit to any customer on the faith of such documents.

The cover is operative irrespective of whether the said instruments are received over the counter or through the clearing house or by mail.

d) Dishonesty

The dishonest or criminal act of any employee of the insured with respect to the loss of money and/or securities wherever committed and whether committed singly or in connivance with others.

e) Hypothecated goods

Fraud and /or dishonesty of the insured employee in respect of any goods and / or commodities pledged or hypothecated to the insured and under the insured's control.

f) Registered postal sendings

Loss by robbery, theft or by other causes not excluded whilst in direct transit or intended to be dispatched by registered insured post from office of the insured to the consignee provided that each post parcel shall be insured with the post office. The insurers liability for any one consignment is limited to the least of the following:

i. 10 percent of the basic sum insured or
ii. Rs.50,000

g) Appraisers

Loss due to infidelity or criminal acts on the part of appraisers, provided that such appraisers are on the approved list of the insured bank and provided that the insured bank exercises reasonable precautions and safeguards in the selection and appointment of such appraisers.

The insurers liability in respect of each appraiser is limited to the least of the following:

i. 5 percent of the basic sum insured or
ii. Rs. 25,000

h) Janata agents

Loss due to infidelity or criminal act on the part of janata agent / chhoti bachat yojana agents / pygmy collectors etc. Provided that such agents are:

i. Regular part time agents of insured bank
ii. Appointed after full scrutiny of their credentials and
iii. Guaranteed by two reliable independent persons.

The insurers liability respect of each such agent is limited to 5 percent of the basic sum insured or Rs.10,000 whichever is less.

2. Policy excess

The insured has to bear an excess in respect of each and every loss. If the claim is under terms A to E above, the insured shall bear 25% of each loss or 2 percent of the basic sum insured, whichever is higher, but not exceeding Rs.50,000.

The excess will not apply to loss and / or damage arising out of:

- ✓ Fire,
- ✓ Riot and Strikes,
- ✓ Burglary and House breaking.

If the claim is in respect of items F to H above the insured has to bear 25% of each and every claim.

3. Automatic reinstatement

The policy contains a provision for an automatic reinstatement of the sum insured on payment of a loss. The insured has to pay a pro rata additional premium for the said reinstatement.

The reinstatement can, however, be effected for a total amount not exceeding the original sum insured, under the policy. This means that the liability of the insurers will be limited to:

- ✓ Twice the respective sum insured in any one period of insurance and
- ✓ The respective sum insured in respect any loss or losses caused by acts and / or omission of any one person.

The reinstatement premium is deducted from the claim amount itself, while settling the claim.

4. Basic sum insured

The proposer has to select the sum insured which is the limit of liability of the insurer for any one loss. The sum is known as the **basic sum insured**. It cannot be increased during the currency of the policy. However, it may be increased at the renewal of the policy.

5. Time period

The policy is generally issued for a period of twelve calendar months. It commences and ends as per the financial year of the insured bank.

6. Exclusions

The policy excludes the following losses:

a) Losses of any money and /or securities due to wrongful act or default of any directors or partners of the insured, other than salaried.

b) Losses of any property and / or securities and /or personal property confined to the care of the insured, the nominal value and descriptions of which have not been ascertained by the insured before loss.

c) Trading losses, whether or not within the knowledge of the insured notwithstanding any act or omission on the part of the employee whether within the scope of authority or not.

d) Losses caused by war and allied risks.

e) Losses attributable to faulty computer programming or fraudulent use of computer programme or any other EDP System.

f) Losses caused by earthquake, typhoon, cyclone flood and such other convulsions of nature.

g) Losses caused by negligence act or omission of the insured employees. It may however be noted that under Section B Transit cover, losses due to negligence of employees is covered.

h) Losses caused by ionizing radiations or contamination by radio activity from any nuclear fuel or from any nuclear waste.

i) Losses caused by nuclear weapons material.

j) Losses due to any acts or omissions committed by the concerned employee after discovery of a loss in which the said employee was involved.

7. Conditions

The conditions are similar to those under the other miscellaneous accident policies. The following may however be noted:

a) The cancellation condition provides for 15 days notice either side, by registered post.

i. If the insurers cancel the policy, refund of premium is made to the insured on pro-rata basis.

ii. If the insured cancels the policy, the insurers refund the premium, on short period scale provided no claim has been paid or reported till the date of cancellation.

b) The notice of any event likely to give rise to a claim under the policy is required to be given by the insured to the insurers, immediately when the event is discovered. A complaint should forthwith be lodged with the police. All practicable steps are to be taken by the insured to recover lost property and to apprehend guilty persons.

c) The insured bank is expected to take all reasonable steps to safeguard the property insured, and to secure all doors, windows and other openings and all safe and strong rooms etc. Obliviously whether the steps taken were reasonable or not will depend on the circumstances/merits of each case.

d) The accounts are to be audited annually by the bank's auditors. In practice such audit may not be possible of each and every branch annually particularly when the bank has a large network of branches widely spread over.

e) Any amount payable by the insured to the employee, in respect of whom a claim is made, or any moneys, effects in possession of the insured in account of such employees are to be applied in priority towards making good the claim under the policy. Any moneys recovered after settlement of the claim would be the property of the Insurance Company.

8. Sum insured

The Basic Sum Insured (as discussed earlier), is applicable to sections A to E of the Policy. In respect of section F, G and H lower sum insured is applied as a certain percentage of the basic sum insured.

The risk involved in Section A and Section B is higher than the other sections. The Basic Sum Insured which is applicable to all the sections will not usually be adequate for the first two sections.

Hence, the Bank is allowed to select a higher Sum Insured for these two sections which is known as the **'Additional Sum Insured'**.

It is pertinent to note that the rate of premium applied is higher for the basic Sum Insured and lower for the additional Sum Insured. The basic Sum Insured and the Additional Sum Insured under Sections A and /or B are specified in the Schedule of the Policy.

9. Proposal form

The proposal form is very simple and contains very few questions, basically, number of employees, number of branches, Sum Insured desired, previous loss, insurance history, etc.

10. Rating

The premium is based on the following:

a) The limit of indemnity i.e. Basic Sum Insured.

b) The total number of persons employed by the Bank including appraisers, Janata and Chhoti Bachat Yojana Agents and pygmy collectors. This is because the policy covers infidelity risks.

c) Additional limits if required by the insured under Sections a and / or b.

d) For the purpose of rating the total number of employees at the beginning of the earlier financial year is obtained from the proposal form and 5% is added to take into account normal increase in staff.

e) As the number of branches of the insured bank increases the control and supervision becomes less effective.

f) Hence no branch discount is given where the number of branches exceeds 500. The discount varies in inverse proportion to the number of branches as under:

Upto 50 Branches	20% discount
51-100 Branches	15% discount
101-250 Branches	10% discount
251 - 500 Branches	05% discount
Above 500 Branches	Nil

11. Claims

The investigation and assessment of claims under this class of business is generally entrusted to qualified Chartered Accountants who are licensed to assess Insurance Claims.

The policy provides that the insurers are not liable:

a) For losses not discovered within the period of this insurance.

b) In the event of non-renewal or cancellation of the Policy, for losses not discovered within six calendar months next following the date of expiry or the date of cancellation, as the case may be, (provided only that if there be any other insurance in force during the said six calendar months whether effected by the insured or otherwise, the policy shall not cover or contribute to any loss covered by such other insurance.)

c) For losses not sustained within a retroactive period not exceeding two years from the date of discovery of any such loss or losses provided that in such retroactive period, the insurance was continuously in force, but in no event, the insurers shall be liable to pay any claim in respect of a loss or damage sustained prior to inception of the original policy.

d) It is to be noted that the policy is on **discovery basis** and **not on occurrence basis**. Therefore for a particular policy to be operative the loss has to be discovered during the policy period. The relevant occurrence could be within the same policy period or earlier period but within the retroactive period covered which is a **maximum period of two years** from date of discovery of a loss.

In estimating the amount of any loss, the value of securities shall be taken at the average market price or value in rupees on the date of discovery of such loss (omitting Sundays and holidays). If there be no market price, the value thereof shall be the value as agreed between the respective parties. In the event of difference, value will be ascertained by arbitration.

It is pertinent to note that the policy covers loss of money or securities. Insurers are faced with claims, resulting from:

a) Loans given in fictitious names and money embezzled by the employee himself.

b) Loans given against bogus collaterals and not repaid. The Bank is not able to recover the amount from the fictitious loanees.

The Bank's operative machinery for its day to day working should be robust and there should be proper systems and dual control in place. Dual control is a condition precedent to liability. Hence Bankers Indemnity claims have to be dealt with on a case to case basis and admissibility decided.

Due to changed market conditions now, there is obviously a need to thoroughly review and revise the cover/wording. Such claims are generally repudiated under the exclusion pertains to a trading losses.

Test Yourself 1

The definition of 'Employee' is deemed to include which of the following?

I. Permanent or temporary staff
II. Whole time or part time staff
III. Officers and clerks
IV. Director other than salaried

B. Jewellers Block Insurance

This policy had been specially devised for diamontaires, i.e those establishments dealing solely in diamonds. This is obvious from the fact that specific mention has been made of brokers, cutters, sorters etc. and also dispatch by registered post and angadia.

The policy can be used to cover jewellers either for retail or wholesale marketing. This policy is not meant for those establishments whose work is predominantly manufacturing like cutters and goldsmiths. This policy cannot be given to Angadias, brokers etc. This policy is also not meant for pawn broking establishments.

The policy is also outside the purview of the Market Agreement since 01/04/94. The discussions in this Course are general in nature and not practices followed by any Company. The cover may slightly vary.

1. Coverage

The property covered under this type of insurance is as under:

a) Jewellery gold and silver ornaments or plate, pearls and precious stones of any kind whatsoever, cash and currency notes and / or merchandise and materials usual to the conduct of the insureds' business.

b) Trade and office furniture and fixtures whilst they are in insureds' business premises. The indemnity is extended to cover damage done by burglars/thieves to the premises and landlords fixtures and fittings for which the insured is legally responsible as tenant, upto a specified percentage of the Sum Insured.

The cover provided under the policy is divided into four sections. It is not necessary for the proposer to cover the risk under all the 4 sections. If a proposer desires he can cover the risk under sections I and IV only. However coverage under Section I is compulsory.

Section I	Loss of or damage to property (specified in para (a) above) whilst contained in the premises insured by fire, explosion, lightning, burglary, house breaking, theft, hold up, robbery, riot, strikes and malicious damage
Section II	Cover as in Section 1 whilst the property (specified in para (a) above) insured is in the custody of the insured, his/her partners, his employees, duly constituted attorneys, directors, sorters of diamonds OR whilst such property (excluding cash or currency notes) is in the custody of persons not in regular employment of the insured such as brokers, agents, cutters and goldsmiths. This section also covers jewellery which are displayed in exhibitions for a specified period of time. The same has to be intimated to the insurers as and when such need arises. An endorsement is passed to this effect. Such jewellery is covered during transit (to and fro) to such exhibition within the Country. It is pertinent to note that if the exhibition is to be held outside the country, the same needs to be covered under a special perils or special contingency policy as the terms and conditions including valuation will be more complex.
Section III	All risks cover whilst such property (specified in para (a) above) is in transit by Registered Parcel Post, Air Freight and through Angadia, subject to exclusions.
Section IV	Loss of or damage to property (specified in para (b) above due to fire, explosion, lightning, burglary, house breaking, theft, hold up, robbery, riot, strikes and malicious damage.

2. Sum Insured

a) The sum insured has to be fixed by the insured in respect of property covered under Section I.

b) Under Section II, the insured has to specify limit for any one loss separately for property:

i. In the custody of insured, partners etc; and
ii. Entrusted to brokers, cutters, etc.

c) Under Section III the insured has to specify limit any one loss for

i. Registered post parcel
ii. Air freight
iii. Angadia

It should be noted that the total of (a), (b) and (c) should not exceed sum insured under Section I)

d) The condition of average is applicable to losses under Sections I, II and III. The value of property insured under these sections should not be the sum insured under Section I.

e) Under Section IV the sum insured should represent the full value of property, otherwise average is applied.

f) In respect of sending by Registered Post parcel, the policy normally provides that the limit should not exceed Rs. 5 lakhs or 10 percent of the sum insured under Section I, whichever is less.

g) In respect of sending by Air Freight separate limit for any one loss is fixed.

The policy contains a warranty that all stocks covered whilst contained in the premises specified in the Schedule shall be secured in locked burglar proof safes at night and at all times outside their specified business hours. It is warranted that registered post parcels are insured with the Postal Authorities for the maximum amount permissible.

3. Exclusions

Some of the more important exclusions are:

a) Loss of or damage to the insured property whilst the same is being worked upon, or directly resulting from any process of cleaning repairing or restoring.

b) Shortage noticed at the time of stock taking. It is pertinent to note that it is trade practice for the jewelers to do stock taking on a daily basis. This exclusion applies to losses that have not been realized during its occurrence, but comes to light during such stock taking.

c) Loss of or damage to the insured property while the same is at any public exhibition, unless intimated to the insurers, who in turn agree and pass an endorsement to that effect.

d) While the property is being worn or used by the insured or any principal director or partner of the insured, or their wives, members of their families, relatives or friends, or while in their custody for such purpose.

e) Theft or disappearance from vehicles owned by or under the control of the insured, whilst such vehicles are left unattended.

f) Loss or damage caused by or arising from depreciation, wear and tear, vermin and mildew.

g) Loss of or damage to any fragile article unless such loss or damage arises from accident to vessel, train, vehicle or aircraft by which the property is conveyed.

h) Theft by or dishonesty of the insured’s family member, employee, broker or customer

i) Loss following use of key to the safe or duplicate thereof belonging to the insured unless the same is obtained by threat or violence.

j) Loss of or damage to insured property whilst in window display at night or whilst kept outside safes after business hours.

k) Any consequential loss or damage including legal liability and delay.

l) Loss or damage resulting from war and allied perils, flood, storm or other convulsions of nature.

m) Losses caused by ionizing radiations or nuclear weapons material.

4. Conditions:

The conditions are similar to those found in other miscellaneous (accident) insurance policies. However the following may be noted:

a) The basis of valuation in respect of property described in the Schedule for the purpose of the policy is the insureds’ cost plus ten percent thereof. This aspect should borne in mind whilst deciding Sum Insured also.

b) The loss in order to be payable under the policy has to be discovered within 60 days of its happening.

5. Rating

a) For rating purpose the premium is computed for each section separated and the added up in respect of Section I, the risk are divided into three categories.

Class I	Watchmen employed on 24 hours basis (round the clock) for all the premises declared for insurance.
Class II	Common watchmen for the premises day or night or 24 hours for the entire building.
Class III	All types of other risks

b) The rate applicable to class I premises is the lowest and highest in respect of Class III premises. Further, a lower rate is charged on graded basis if the total sum insured of the proposed risk is high.

c) The rates in respect of other sections will depend upon the sum insured selected by the proposer.

6. Discounts

a) A special discount is allowed in respect of Section I premium if the premises have any one of special protection devices or measures such as special security built-in vaults, strong rooms, closed circuit TV and armed guards.

b) It is important to impose a warranty that such devices will be functional, throughout the currency of the policy.

7. Claims

The insured is required to give the insurers within 24 hours, a notice of the happening of any event likely to give rise to a claim. He is also required to inform the police within 24 hours. The insured has to furnish to the insurers full details of the loss, within 14 days of the event coming to his knowledge.

The provisions of the policy conditions in the matter of discovery period, basis of valuation and arbitration proceedings are relevant to claims processing and may be noted.

Investigation and assessment of Jewelers Block claims are also entrusted to qualified Chartered Accountants who may also utilize the assistance of Appraisers and Valuers.

Test Yourself 2

In respect of sending by Registered Post parcel, the Jewellers Block Insurance policy normally provides that the limit should not exceed:

I. Rs. 5 lakhs or 10 percent of the sum insured under Section I, whichever is less.
II. Rs. 10 lakhs or 5 percent of the sum insured under Section I, whichever is less.
III. Rs. 50 lakhs or 10 percent of the sum insured under Section I, whichever is less.
IV. Rs. 5 lakhs or 50 percent of the sum insured under Section I, whichever is less.

Summary

a) A Bankers' Blanket Indemnity policy provides indemnity for any direct loss of money and / or securities sustained by the insured and discovered during the period specified in the policy.

b) The policy provides indemnity against the following contingencies:

- ✓ On premises
- ✓ In transit
- ✓ Forgery or alteration
- ✓ Dishonesty
- ✓ Hypothecated goods
- ✓ Registered postal sendings
- ✓ Appraisers
- ✓ Janata Agents

c) The insured has to bear an excess in respect of each and every loss. If the claim is under contingencies from i to v above, the insured shall bear 25% of each loss or 2 percent of the basic sum insured, whichever is higher, but not exceeding Rs.50,000. If the claim is in respect of vi to viii, the insured has to bear 25% of each and every claim.

d) The policy contains a provision for an automatic reinstatement of the sum insured on payment of a loss.

e) The proposer has to select the sum insured which is the limit of liability of the insurer for any one loss. The sum is known as the **basic sum insured**.

f) The policy is generally issued for a period of twelve calendar months.

g) The policy is subject to certain specified exclusions

h) The policy is subject to certain conditions that are similar to those under the other miscellaneous accident policies.

i) A Jewellers Block Insurance policy had been specially devised for diamontaires, i.e those establishments dealing solely in diamonds. The policy can be used to cover jewellers either for retail or wholesale marketing.

j) The property covered under this type of insurance is as under:

   i. Jewellery gold and silver ornaments or plate, pearls and precious stones of any kind whatsoever, cash and currency notes and / or merchandise and materials usual to the conduct of the insureds' business.
   ii. Trade and office furniture and fixtures whilst they are in insureds' business premises.

k) The cover provided under the policy is divided into four sections. It is not necessary for the proposer to cover the risk under all the 4 sections. If a proposer desires he can cover the risk under sections I and IV only. However coverage under Section I is compulsory.

l) The policy is subject to certain specified exclusions

m) The policy is subject to certain conditions that are similar to those under the other miscellaneous accident policies.

Answers to Test Yourself

Answer 1

The correct option is IV.

Directors other than salaried are not included in the definition of employees.

Answer 2

The correct option is I.

The limit should not exceed Rs. 5 lakhs or 10 percent of the sum insured under Section I, whichever is less.

Self-Examination Questions

Question 1

The insurers liability respect of each Janata agent is limited to the extent of least of which of the following?

I. 5% of basic sum insured or Rs 1,000
II. 10% of basic sum insured or Rs 5,000
III. 5% of basic sum insured or Rs 10,000
IV. 5% of basic sum insured or Rs 100,000

Question 2

In the case of claims for a Jewellers Block Insurance policy, an insured has to furnish to the insurers full details of the loss, within:

I. 14 days of the event coming to his knowledge
II. 14 days of the event occurring
III. 1 week of the event coming to his knowledge
IV. 1 week of the event occurring

Question 3

In estimating the amount of any loss, the value of securities shall be taken at the average market price or value in rupees on:

I. The date of occurence of such loss (omitting Sundays and holidays)
II. The date of discovery of such loss (omitting Sundays and holidays)
III. The date of occurence of such loss (including Sundays and holidays)
IV. The date of discovery of such loss (including Sundays and holidays)

Question 4

Forgery or Alteration can be caused by:

I. The payment of bogus, fictitious, forged or raised cheques or drafts
II. The payment of genuine cheques, drafts or fixed deposit receipts bearing forged endorsements
III. Only option I
IV. Both Options I and II

Answers to Self-Examination Questions

Answer 1

The correct option is III.

The insurers liability respect of each such agent is limited to 5 percent of the basic sum insured or Rs.10,000 whichever is less.

Answer 2

The correct option is I.

The insured has to furnish to the insurers full details of the loss, within 14 days of the event coming to his knowledge.

Answer 3

The correct option is III.

It is to be noted that the policy is on **discovery basis** and **not on occurrence basis**.

Answer 4

The correct option is IV.

Both options are instances of forgery or alteration.

CHAPTER 8

OTHER MISCELLANEOUS POLICIES

Chapter Introduction

This chapter deals with various types of insurance policies that fall under the category of miscellaneous insurance policies. These include policies on various living and non-living objects. We start by having a look at the non-living ones and then move on to the others such as Horse and Pet Dog insurance.

Learning Outcomes

A. Miscellaneous insurance policies - I
B. Miscellaneous insurance policies - II

Look at this Scenario

Insurers are constantly exploring new ways of covering risks for almost anything that involves a risk for their customers. In today's competitive business environment, insurers that provide specialised insurance cover at attractive premium rates will be better placed as compared to those who offer only conventional policies.

Let's take the case of Missing Documents Indemnity Policy. This policy seeks to indemnify the authority issuing the duplicate or paying any sums under the missing document, against any loss that it might sustain as a result of its having issued a duplicate document or having made any payment under the missing document.

This really is the need of the hour as there are several important documents such as bank deposit receipts, share certificates which if stolen can lead to losses.

A. Miscellaneous insurance policies - I

- ✓ Pedal cycle insurance
- ✓ Plate glass insurance
- ✓ Missing documents indemnity
- ✓ Neon sign insurance
- ✓ Sports insurance
- ✓ Television insurance

1. Pedal cycle insurance

a) Coverage

The cover granted generally is in respect of:

i. Loss of or damage to the pedal cycle described in the schedule of the policy:

- ✓ Resulting from fire, lightning, explosion,
- ✓ Resulting from burglary, housebreaking, theft, or
- ✓ By accidental external means

(The loss of or damage to the pedal cycle by accidental external means is subject to an excess of, say, Rs.25 in respect of each claim).

ii. Insured's legal liability for bodily injury to the public and for damage to the property of the public, subject to a specified limit, say, Rs.50,000.

(The insured may desire to have comprehensive cover. i.e. both (a) and (b) above, or only third party liability cover i.e. only (b) above).

b) Other points

i. Loss of or damage to rubber tyres, lamps, tools and accessories is covered only if they are lost or damaged in the same accident in which the insured pedal cycles is also damaged.

ii. Theft of these parts is covered only if the insured pedal cycle is also stolen at the same time. The cover is not operative if the insured pedal cycle is overloaded, or in racing, pace making or speed tests.

iii. Usual wear and tear, mechanical breakdown, as also losses arising from war (and allied risks), riot, strikes, earthquake and such other convulsions of nature, are outside the scope of the cover. The riot and strikes risks may be covered on payment of additional premium.

iv. Personal accident benefits may be granted on payment of additional premium.

v. The premium rates depend on the cover desired by the insured (i.e. whether comprehensive or third liability only), and the limit of indemnity selected by the insured in respect of third party cover. Some insurers grant a discount of say, 10 %, if more than one cycle are insured under a single policy.

2. Plate Glass Insurance

a) Coverage

The policy generally provides cover against the breakage of the plate glass fixed to display windows or show cases of commercial establishments by any reason whatever, except those that are specifically excluded by the policy.

Breakages normally excluded from the policy are those by reason of:

- ✓ Fire or explosion
- ✓ Earthquake or such other convulsions of nature and
- ✓ Riot, strikes, war and kindred risks (riot and strikes may be covered on payment of additional premium).

Definition

Unless specifically stated in the schedule of the policy, **glass** means plain glass of ordinary glazing quality and does not include any embossing, silvering, lettering or ornamental work.

i. Damage to frames and the cost of removal or replacement of any fittings or fixtures necessitated for replacing the broken glass are not paid for under the policy.

ii. The policy also does not cover cracked or imperfect glass or any loss arising from the interruption of business of the insured during the period between the date of breakage and the date of replacement. The policy covers actual breakage of glass and hence any superficial damage or scratching is not within the scope of the policy.

iii. The business is accepted as accommodation only. Inspection should be carried out to verify earlier damages, if any and proper size and identification of Plate glass.

iv. Newly fitted glass is undesirable risk mainly on account of shrinking, warping of the wood work which takes time to settle and under the circumstances may damage the glass. Under these circumstances cover may be deferred for sometime to allow for these adjustments.

v. Vacant premises provide greater hazard since damage may be affected easily without detection for longer period.

vi. The locality factor should be taken into account viz.

- ✓ Street corners
- ✓ Slum area
- ✓ Disturbed localities where children play in streets or hooliganism is present
- ✓ Narrow thoroughfare with heavy traffic

b) Rating

i. Higher rates are frequently charged for showrooms, garages, Jewellers etc. In the case of the latter, the special hazard arises from the possibility of damage in smash and grab raids.

ii. The rate of premium depends on the type of glass, situation, previous experience and neighborhood.

iii. The rate ranges from 5 percent to 10 percent of the value of the glass.

c) Claims

i. In the event of a claim, the amount payable under the policy is restricted to the intrinsic value of the broken glass upto the amount specified in the policy against the relevant item. All salvage glass shall be the property of the insurers and must be carefully preserved.

ii. The insurers have the option either to pay in cash the amount of the intrinsic value of the broken glass, or to make replacement by glass of similar manufacture and quality.

iii. The coverage under the policy applies only so long as the glass is fixed. The insurance cover will cease if any alterations are carried on to the premises, or if there is a change in the tenancy of, occupancy of, or business carried on in, the premises containing the glass insured.

iv. In the case of heavy breakage involving a substantial amount of loss, an independent survey would be arranged. In the case of minor breakage, the loss would be settled on the basis of the claim form which would elicit the following information:

- ✓ Name of the Insured
- ✓ Address
- ✓ Address where glass is situated indicating the precise position of the glass
- ✓ Size and value of the plate broken
- ✓ Cause of breakage
- ✓ Date of Breakage
- ✓ Name and address of the person causing breakage
- ✓ Was the person in any way employed by the insured

3. Missing Documents Indemnity

Documents like share certificates, bank deposit receipts, life insurance policies etc. sometimes get lost or misplaced. Consequently, the owners of these documents may have to apply for the issue of duplicate documents.

Since there is no guarantee that the original documents have perished, or they have not fallen into wrong hands who may misuse them, there is an element of risk in the issue of duplicate documents.

The authorities concerned, therefore, ask for an indemnity from an insurance company before they issue duplicate documents.

Coverage

The indemnity issued by insurers seeks to indemnify the authority issuing the duplicate or paying any sums under the missing document, against any loss that it might sustain as a result of its having issued a duplicate document or having made any payment under the missing document.

Insurers, while granting such an indemnity, almost always obtain a counter indemnity in order to safeguard their interests.

In view of the preponderance of moral hazard, such indemnities are granted only in respect of persons known to the insurers and about whose integrity and honesty, they are fully satisfied.

An important aspect of these indemnities is that they may continue to be force for several years.

Example

An indemnity of this nature given in respect of a share certificate has to remain in force till the time the person on whose behalf the indemnity was issued, transfers to some other person, all the shares represented by that certificate.

This may be after a few months, years or even decades.

There are no standard premium rates for this indemnity, because the risk varies from case to case.

4. Neon Sign Insurance

Coverage

The insurance is in respect of loss or damage to the neon sign installation by:

- ✓ Accidental external means or
- ✓ Fire, lightning, external explosion and theft

The policy excludes the following:

a) The fusing or burning out of any bulbs and / or tubes arising from short circuiting or arcing or any other mechanical or electrical defect or breakdown.

b) Repair, cleaning, removal or erection, wear and tear, depreciation or deterioration.

c) Damage to tubes unless the glass in fractured

d) Over running, over heating or strain

e) Atmospheric conditions

f) Consequential loss, however caused

g) Strikes, riot, civil commotion. (Riot and strikes may be covered on payment of additional premium).

h) Natural risks

i) War and kindred perils

Besides the usual conditions which are found in policies covering property, the neon sign insurance policy contains:

a) A condition which provides that the insured neon sign must be examined and inspected at regular intervals of not longer than six months by a qualified electrician and engineer,

b) A report certifying that

i. The said neon sign is in sound running order
ii. Is properly and adequately fastened and attached to its frame work
iii. The foundation of the entire structure is also of adequate strength and properly attached to the ground or floor as the case may be, must be submitted to the insurers.

It has to be checked whether the proposer has any standing arrangements whereby repairs/defects discovered by these inspections are immediately carried out or set right promptly and the safety measures adopted for the prevention of loss or damage occurring as a result of the collapse of the Sign.

The physical characteristics of the property on which the Sign is erected or attached and the features of the surroundings are important factors deserving careful consideration.

Example

a) Age, height and condition of building

b) Is the building built on the main thoroughfare?

c) Is the roof on which the Sign is erected, flat or gabled and how far is the Sign from the edge of the roof on all sides.

d) Whether the area or territory is prone to windstorms with high velocity winds blowing during certain seasons.

The claims history has to be checked.

Example

Has the proposer received any notice from any person or authority regarding any defect in the Sign or hoarding? What has the proposer done to rectify the defect?

Third party liability may also be added to the policy.

5. Sports Insurance

i. This is a kind of a comprehensive cover available to amateur sportsmen covering their sporting equipment, personal accident risks, etc.

ii. If desired the cover can also be made available in respect of the named member/s of insured's family residing with him.

iii. It is to be noted that this cover is not available to professional sportsmen.

iv. The cover is available in respect of any one or more of the following sports:

- ✓ Angling
- ✓ Badminton
- ✓ Cricket
- ✓ Golf
- ✓ Lawn tennis
- ✓ Squash
- ✓ Use of sporting guns

a) Coverage

The indemnity is available in respect of the following:

i. Loss of or damage to sporting equipment, accessories and sporting apparel used in connection with any sport for which insurance is effected subject to a limit to Rs. 2000/- per person for each sport.

ii. Loss of or damage to personal effects and clothing (whilst contained in any clubhouse, hut or sports pavilion), caused by fire, burglary, housebreaking or theft, subject to a limit of Rs. 1000/- per person. The property covered excludes watches, jewellery, money, securities, documents and any article insured under (a) above.

iii. Legal liability of the insured and named members of the family of insured, to the public, whilst engaged in or practicing the sport, subject to a limit of Rs.5,00,000 for any one accident.

iv. Accidental bodily injury to the insured and to the named members of the insured's family whilst engaged in or practicing the sport, subject to the following:

- ✓ Age limit - 17 to 70 years
- ✓ Comprehensive benefit can be provided as per P.A. guidelines. The S.I. is usually restricted to Rs.1 lac since this benefit is only incidental to the policy.

The policy normally grants cover for events taking place in India. Considering the customer demands, insurers may grant cover for amounts greater than those specified above.

b) Exclusions

The following losses are excluded from the cover referred to in item (a) above:

i. Loss of or damage to cricket, golf, squash and tennis balls, shuttlecocks and breakage of racquet strings, cricket bats and angling lines.

ii. Loss or damage arising from moth, vermin, mildew, gradual deterioration, wear and tear, rust or atmosphere conditions or from any process of cleaning, repairing or restoring.

The personal accident cover referred to above excludes death or bodily injury resulting from intentional self injury, suicide, attempted suicide or from the influence of drink or drugs.

If angling is covered, the policy excludes loss or damage arising from the use of any craft (other than hand propelled craft) or vehicle.

The premium depends on:

- ✓ The number of sports to be insured and
- ✓ The number of persons to be included in the policy

c) Extensions

The following extensions are available on payment of additional premiums:

i. The policy can be extended to cover a worldwide geographical area.
ii. The value of sporting equipment, accessories and apparel in excess of Rs.2,000 can be insured at an additional premium on the excess value.

6. Television Insurance

a) Coverage

The indemnity provided is in respect of:

i. loss of or damage to the television apparatus (including the aerial fittings)

ii. liability of the insured arising out of accidents caused by or through such apparatus, subject to a specified limit, say, Rs.25,000/-

iii. loss of or damage to property belonging to or in the custody of the insured, by breakage or collapse of the aerial fittings or mast of the apparatus (in so far as such property is not otherwise insured), subject to a specified limit of say, 2,000/-

It is pertinent to note that Televisions have undergone sea change over the last few decades. Aerial fittings, mast and apparatus are not very common. LCDs are in vogue. The covers accorded by the insurers are accordingly amended from time to time to suit the needs.

The perils ordinarily covered are fire, lightning, accidental external means, short circuiting, flood, hurricane, bursting and overflowing of water tank, theft, riot, strike and earthquake. Sometimes, short circuiting is not covered, but it may be covered as an extension of the policy, on charging additional premium.

b) Exclusions

The following are excluded:

i. Consequential loss, depreciation, wear and tear, failure or breakage or damage caused by normal atmospheric conditions.

ii. Loss or damage arising from erection, repairing or dismantling of the apparatus.

- ✓ Burning out of valves or coils,
- ✓ Mechanical derangement,
- ✓ Mechanical or electrical breakdown, unless caused by any of the insured perils.
- ✓ Loss or damage by war and allied perils
- ✓ Liability assumed by the insured by agreement, unless such liability would have devolved on the insured notwithstanding such agreement
- ✓ Loss, damage or liability arising from ionizing radiations or nuclear weapons material.

Premium is charged at a rate percent of the value of the apparatus

Test Yourself 1

In the case of Neon Sign Insurance, the insurance is in respect of loss or damage to the neon sign installation by which of the following?

I. Accidental external means
II. External explosion
III. Theft
IV. All of the above

B. Miscellaneous insurance policies – II

- ✓ Blood Stock (Horse) Insurance
- ✓ Pet Dog Insurance

1. Blood Stock (Horse) Insurance

This policy was under market agreement till 31.3.94. Thereafter each company has devised its own guidelines primarily based upon the earlier market agreement.

The discussions in the learning outcome, accordingly are general in nature and not specific practices of any company. The policy is meant for horses used for racing and breeding purposes.

a) Underwriting

An underwriter of horse insurance should be well versed in veterinary science and should also have a fair knowledge of animal management.

The policy provides that the insurers will pay the market value or sum insured whichever is less. Still it is difficult to reopen the question of market value at the time of loss and the policies of this class of insurance are issued more or less as valued policies.

The underwriter should, therefore, have the ability to assess independently the value of the horse/s proposed for insurance

Moral hazard is to be closely watched for this class of insurance, since the insurers are in the hands of the proposer in the matter of peculiarities of his animal (i.e. history of previous foaling, nature of extra hard work, susceptibility to diseases, etc.)

A proposal form together with a report from a qualified veterinary surgeon on the form drawn up by the insurer is always insisted upon. When sum insured is large say Rs.10 lacs or more veterinary certificate from two veterinary doctors are collected.

To minimize the difficulty of identification, each horse must be adequately described giving colour, all natural markings and age. All horses of a particular type, owned by the proposer must be insured, so as to eliminate the possibility of the proposer making a selection against the insurers.

b) Risk Covered

The policy provides indemnity in respect of death of a horse occurring from accident, illness of disease sustained or contracted whilst within the specified geographical area (including transit therein) during the period of insurance.

The amount payable under the policy is either the sum insured or the market valued of the animal immediately prior to the occurrence of the accident or the contracting of the illness or disease, whichever is less.

c) Exclusions

Death of horse arising out of the following is excluded:

i. Slaughter without the consent of the insurers except in cases of fracture of a bone necessitating immediate slaughter on humanitarian grounds

ii. Destruction in compliance with the requirement of any statute or any order of any Government, municipal or other authority

iii. Castration or other surgical operation carried out without the consent of the insurers

iv. Unfitness or incapacity to fulfill the functions or duties for which the animal is kept or employed

v. Accident, illness or disease sustained or contracted elsewhere than in India

vi. Overloading, unskillful treatment, willful neglect, poisoning

vii. Transport by air or sea

viii. Use of the animal for purpose other than those stated in the schedule of the policy without the written consent of the insurers

ix. Osteoporosis or kumrie or depreciation in value due to contracting osteoporosis or kumrie prior to death or due to any other cause

x. War and allied perils

xi. Strikes, riot, civil commotion; and

xii. Ionizing radiations and nuclear weapons material

d) Conditions

The following conditions may be specially noted:

i. The insured is required to give to the insurers an immediate notice of parturition or operation performed or accident, lameness, illness or sickness of the insured horse. He is also required to provide immediately at his own expense, adequate attention and treatment by a qualified veterinary surgeon and to furnish a report by the attending veterinary surgeon on the conditions of the horse.

ii. The policy is void if any of the insured horse is inoculated or operated upon without the consent of the insurers.

e) Rating

Premium under the policy is based on the sum insured, use and the age of the horse. A horse is regarded as having reached the age of one year on the first January following the date of birth, irrespective of the month of the previous year in which it was born. A group discount is granted if a large number of horses, are to be covered under a single policy.

f) Claims

On the death of the horse described in the schedule of the policy, the insured is required to give within twelve hours notice to the insurer and to give the insurer an opportunity of inspecting the carcass by not removing, cutting or parting with it until the expiration of at least 24 hours after such notice is issued to the insurers. Within 21 days thereafter, satisfactory proof as to the cause of death, identity and market value of the horse, together with appropriate certificate / s from veterinary surgeon, must be submitted.

2. Pet Dog Insurance

Insurance is granted in pure or cross bred pedigree dogs, watch dogs and sheep dogs, within the age limit of 2 months to 8 years.

Cover is against death by disease or accident. Total or partial disability is not covered. The diseases such as Rabies, Canine, distemper, Canine virus etc. are covered only if necessary vaccination certificate is submitted. The exclusions are more or less the same as under Cattle Policy.

The identification methods are:

- ✓ Tattooing
- ✓ Nose print and colour photograph
- ✓ Face/side and natural identification mark

The purchase price may be taken as sum insured, if insurance is taken at the time of purchase. Otherwise a valuation certificate issued by a recognized Kennel or Canine Club or their approved Veterinarian is necessary.

The following extensions on payment of additional premium are available.

a) Death by accident in transit by air, rail, road, water

b) Death by accidental poisoning

c) Breeding risk

d) Theft

e) Loss of show entry fee (limit of compensation specified) when the dog registered with the Kennel Club is unable to attend the show because of accident or disease covered by the policy

f) Loss of value (limit 50% of sum insured) resultant upon an accident which does not result in death but affects its show career

g) Liability for third party personal injury and damage to property (including animals, poultry, etc.)

h) World wide transport

Test Yourself 2

In the case of pet dog insurance, insurance is granted for watch dogs and sheep dogs with the age limit of:

I. 2 years to 8 years
II. 2 months to 8 years
III. 2 months to 8 months
IV. None of the above

Summary

a) In the case of Pedal Cycle Insurance, the cover is granted generally in respect of loss of or damage to the pedal cycle described in the schedule of the policy resulting from certain specified causes. In addition, the cover is also granted in respect of the insured's legal liability for bodily injury to the public and for damage to the property of the public, subject to a specified limit.

b) A Plate Glass Insurance policy generally provides cover against the breakage of the plate glass fixed to display windows or show cases of commercial establishments by any reason whatever, except those that are specifically excluded by the policy.

c) A Missing Documents Indemnity policy issued by insurers seeks to indemnify the authority issuing the duplicate or paying any sums under the missing document, against any loss that it might sustain as a result of its having issued a duplicate document or having made any payment under the missing document.

d) A Neon Sign Insurance cover applies in respect of loss or damage to the neon sign installation by accidental external means or fire, lightning, external explosion and theft.

e) A Sports insurance policy provides comprehensive cover available to amateur sportsmen covering their sporting equipment, personal accident risks, etc.

f) A television insurance policy provides indemnity in respect of loss or damage to the television apparatus.

g) A Blood Stock Insurance provides indemnity in respect of death of a horse occurring from accident, illness of disease sustained or contracted whilst within the specified geographical area (including transit therein) during the period of insurance.

h) In the case of Pet Dog Insurance, cover is granted in pure or cross bred pedigree dogs, watch dogs and sheep dogs, within the age limit of 2 months to 8 years.

Answers to Test Yourself

Answer 1

The correct option is IV.

All the options can be reasons for being eligible for Neon Sign Insurance cover.

Answer 2

The correct option is II.

Insurance is granted in pure or cross bred pedigree dogs, watch dogs and sheep dogs, within the age limit of 2 months to 8 years.

Self-Examination Questions

Question 1

The sports insurance cover is not available in respect of which of the following sport?

I. Cricket
II. Lawn tennis
III. Badminton
IV. Football

Question 2

A horse insurance policy provides indemnity in respect of death of a horse occurring from:

I. Disease contracted whilst within the specified area during the period of insurance
II. Disease contracted whilst in transit within the specified geographical area during the period of insurance
III. Both of the above
IV. Only option I

Question 3

Glass means plain glass of ordinary glazing quality and does not include:

I. Any embossing
II. Silvering
III. Both I and II
IV. Only II

Question 4

In the case of television insurance, the premium charged is a function of which of the following?

I. Value of repairs
II. Value of consequential loss caused by normal atmospheric conditions
III. Value of apparatus
IV. None of the above

Answers to Self-Examination Questions

Answer 1

The correct option is IV.

Sports insurance cover is not available in respect of football.

Answer 2

The correct option is III.

The policy provides indemnity in respect of death of a horse occurring from accident, illness of disease sustained or contracted whilst within the specified geographical area (including transit therein) during the period of insurance.

Answer 3

The correct option is III.

Both I and II are not included in the definition of glass.

Answer 4

The correct option is III.

Premium is charged at a rate percent of the value of the apparatus.

CHAPTER 9

PACKAGE POLICIES

Chapter Introduction

The chapter deals with the subject of package insurance policies. We start by having a look at the shopkeeper's insurance policy and the cover offered. Then we have a look at the householder's insurance policy and the common features that apply to both the policies. We also look at the various covers available in the market under these heads.

Learning Outcomes

A. Shopkeepers insurance policy
B. Householders insurance policy
C. Other package covers

Look at this Scenario

In the bestseller "**Harry Potter and the Deathly Hallows**" we are introduced to the hallows (three sacred objects)

- ✓ Invisibility Cloak – to hide from death
- ✓ Elder Wand – an unbeatable weapon
- ✓ Resurrection Stone **-** power to summon the dead to the living world

When possessed together, these give the owner complete protection against death.

Amazing isn't it?

We as people face risks on multiple accounts e.g. risks arising out of death, poor health and property damage etc. Risk is something we cannot avoid in life. Hence to protect ourselves from such risks we buy insurance policies. The real challenge lies in keeping track of these multiple policies and renewing them on time. To address such problems and at the same time provide the client with a solid insurance cover against multiple risks, many insurance companies have come up with the concept of package policies. The packages typically comprise three to eight different insurance covers. The buyer can pick and choose the covers he needs.

A. Shopkeepers insurance policy

1. Overview of package policies

Package policies are those which combine different covers into a single policy. It provides convenience to the customers, who can operate all their insurances through a single policy. Moreover, there is no risk of failure to renew a particular policy as renewal of the package policy ensures renewal of all the covers available.

During the tariff and market agreement days, a discount would be allowed on non-tariff premium for more than the specified minimum number of sections.

It is pertinent to note that while issuing a package policy, insurers have to ensure that the individual exclusions applicable to each section are expressly mentioned in the package policy also. Likewise, any specific warranties are also expressly mentioned to avoid disputes at the claims stage.

Initially, there were two package policies issued which were a great success and are in use even today. They still are,

- ✓ Shopkeepers package policy
- ✓ Householders Package Policy

Individual companies use different nomenclature to describe these covers. However, the basic coverage is similar to that mentioned hereunder.

1. Shopkeepers insurance policy

This was a market agreement cover and was devised to cater to the needs of the small shopkeepers. The initial criterion was that the value of property at risk, including the building covered, should not exceed Rs. 10 lakh. In case it exceeds, “Shopkeepers Policy” could not be given at all. It was not permissible in such cases to issue shopkeepers policy up to sum insured of Rs. 10 lakh and for the balance amount to issue specific individual policies. In the present scenario, the limit of sum insured specified is normally Rs. 1 crore and even more. However, this limit varies between insurers.

a) Requirements

It is to be noted that the policy is meant for shops only. It is not to be issued to restaurants, tea/coffee shops. It is not merely sufficient that the Shop and Establishment Act is applicable to the said premises but in fact it has to be a shop where there is over the counter sale.

Also, only because some repair work is being done it does not cease to be a shop subject to the condition that such repair work is just incidental to the main business of selling e.g. shop selling watches and clocks, where some repair work is also undertaken can be given a shopkeeper’s policy.

b) Coverage

The policy cover is normally spread over eleven sections.

Section I

Loss of or damage to building/contents (excluding money and valuables) whilst contained in insured premises by

- ✓ Fire, lightning, explosion of gas in domestic appliances
- ✓ Bursting and overflowing of water tanks
- ✓ Aircraft or articles dropped there from
- ✓ Riot, strike or malicious act
- ✓ Earthquake, subsidence or landslide
- ✓ Flood, storm or tempest
- ✓ Impact damage

Section 2

Loss or damage to contents (excluding money and valuables) whilst contained in the premises by burglary and housebreaking

Section 3

Loss of money

i. Loss of money in transit due to accident/misfortune (Maximum limit per carrying is specified)
ii. Loss of or damage to money/valuables by burglary/housebreaking whilst contained in a locked safe (2% of S.I. under Section A subject to a maximum amount)
iii. Loss of money whilst lying in cashier's till and or counter in insured's premises by burglary, house-breaking or following assault/violence on insured or his employees (1% of S.I. under Section A subject to a maximum amount)

Section 4

Loss of or damage to pedal cycle(s) by

- ✓ Fire, lightning or external explosions
- ✓ Riot, strike or malicious act
- ✓ Earthquake
- ✓ Flood, storm or tempest
- ✓ Burglary, housebreaking or theft

Legal liability of insured for death/injury to third parties or damage to their property arising out of use of pedal cycle(s) up to a specified limit (usually Rs. 10000 to Rs. 25000) for any one period of insurance

Section 5

Loss of or damage to fixed plate glass in the insured premises by accidental means (10% of S.I. under Section A subject to a maximum amount)

Section 6

Loss of or damage to neon sign/glow sign by

- ✓ Accidental external means
- ✓ Fire lightning or external explosion
- ✓ Theft
- ✓ Riot, strike or malicious act

(2% of S.I. under Section A subject to a maximum amount)

Section 7

Loss of or damage to personal baggage of insured or baggage in connection with trade, anywhere in India (2% of S.I. under Section A or Rs.10,000/- whichever is less)

Section 8

Personal accident covers for insured/his employees

Section 9

Fidelity guarantee

Direct pecuniary loss suffered by the insured due to fraud or dishonesty committed by any salaried employees (10% of S.I. under Section A subject to a maximum amount)

Section 10

Legal liability

i. Legal liability in respect of accidental death or bodily injury to a third party or accidental damage to their property during performance of any act in connection with the insured's business up to a normal limit of Rs.25,000/- or 5% of sum insured under Section A whichever is less, during any one period of insurance

ii. Compensation to employees engaged in insured's premises under the E.C. Act/common law

Section 11

Business interruption (loss of profit policy)

i. Loss of profit due to interruption in business consequent upon loss sustained by property insured in Section A of the policy, due to insured perils under that section.

ii. For the cover to be allowed, the building concerned has to be of class 'A' construction as defined in the old fire tariff.

Test Yourself 1

Which of the following is not likely to be covered under shopkeeper's insurance policy?

I. Loss of or damage to building by flood
II. Loss resulting out of depreciation
III. Loss of or damage to fixed plate glass in the insured premises by accidental means
IV. Personal accident cover for insured/his employees

B. Householder's insurance policy

1. Policy details

The policy comprises of 10 sections as under

Section 1

Loss of or damage to the building and contents (excluding money, jewellery and valuables) whilst contained in the insured premises by:

- ✓ Fire, lightning or explosion
- ✓ Bursting and overflowing of water tanks
- ✓ Air-craft or articles dropped there from
- ✓ Riot, strike or malicious act
- ✓ Earthquake, subsidence or landslide
- ✓ Flood, storm or tempest
- ✓ Impact damage

Section 2

Loss of or damage to contents (excluding money and valuables) whilst contained in the insured premises by burglary, house breaking including larceny and theft

Section 3

Loss of or damage to jewellery and valuables caused by accident or misfortune whilst anywhere in India

Section 4

Loss of or damage to fixed plate glass by accidental means

Section 5

Unforeseen and sudden physical damage due to mechanical or electrical breakdowns of domestic appliances specified in the policy and whilst contained in the insured premises

Section 6

Loss of or damage to television apparatus including VCR / VCP whilst contained in insured premises by:

a) Fire and allied perils as described in section (1) above except impact damage, subsidence / land slide
b) Burglary, house-breaking and theft
c) Accidental external means
d) Mechanical or electrical breakdown

Section 7

Loss of or damage to pedal cycle(s) by:

- ✓ Fire, lightning or external explosion
- ✓ Riot, strike or malicious act
- ✓ Flood, storm or tempest
- ✓ Earthquake
- ✓ Burglary, house-breaking or theft
- ✓ Accidental external means
- ✓ Legal liability of the insured for accidental death/injury to a third party or damage to their property as a result of the use of the pedal cycles, up to a limit of Rs.10,000/- in any one period of insurance.

Section 8

Loss of or damage to personal baggage due to accident or misfortune whilst travelling anywhere in India

Section 9

Personal accident insurance for insured, his spouse and children as per personal accident insurance practice

Section 10

Legal liability of the insured in respect of accidental death or bodily injury to third party through fault or negligence of insured/family members up to a limit of Rs.25,000/- for any one event or during the policy period.

Legal liability as per E. C. Act /common law in respect of employees

For the cover to be allowed the building concerned has to be of class 'A' construction as defined in the old fire tariff.

2. Common features

The common features of shopkeepers' and householders' policies are as follows

a) The cover under "Fire Section" is compulsory. In addition, the proposer can choose any number from the remaining covers.

b) The exceptions usual to the various types of covers, when taken as individual separate policies, apply to the corresponding sections of these policies. The policy is subject to certain common exceptions like:

- ✓ War and allied perils
- ✓ Wear and tear and depreciation
- ✓ Consequential loss
- ✓ Nuclear perils

c) The standard conditions are applicable like:

- ✓ Reasonable care of property to be taken
- ✓ Cancellation with 7 days notice
- ✓ Claims procedure involving complaint to the police authorities, immediate notice to the company and submission of full particulars within 14 days
- ✓ Applications of principles of indemnity subrogation and contribution
- ✓ Arbitration regarding quantum of loss only

d) Rating

- ✓ Each section is rated independently.
- ✓ The total premium depends upon the sum insured, the type and number of sections covered.
- ✓ If the insured chooses more than 4 Sections he is entitled to 15% discount in premium.
- ✓ If he has selected more than 6 Sections then 20% discount is available.
- ✓ However the discount rates depend on individual insurers' underwriting policy.

Test Yourself 2

Which of the following is not likely to be covered under householder's insurance policy?

I. Loss of or damage to personal baggage due to accident or misfortune whilst travelling anywhere across the globe
II. Loss of or damage to personal baggage due to accident or misfortune whilst travelling anywhere in India
III. Personal accident insurance for insured, his spouse and children
IV. Loss of or damage to jewellery and valuables caused by accident or misfortune whilst anywhere in India.

C. Other package covers

Some of the other package covers prevalent in the market are as follows

1. Package / Multi-peril policy for L.P.G. gas dealers

There is no standardised policy for this subject. Each company has its own form of policy. However, broadly, the policy provides for the usual multi peril covers as under shopkeeper's policy.

a) Loss of or damage to building and contents due to fire and allied perils like lightning, riot and strike, malicious damage, earthquake, flood, storm or tempest

b) Loss or damage to the contents due to burglary / house-breaking

c) Money

- ✓ Cash-in-Transit insurance in the hands of delivery boys to a small extent and in the hands of messengers for deposit in the bank, withdrawals etc. for a larger limit
- ✓ Cash-in-Safe/box insurance
- ✓ Cash-on-Counter insurance

d) Pedal cycle insurance, both on damage cover and third party cover up to Rs.10, 000/-

e) Plate glass insurance

f) Neon sign / glow sign insurance

g) Baggage insurance

h) Personal accident insurance

i) Public liability insurance

j) Workmen's compensation insurance

Further, the policy gives cover for gas cylinders in transit whether filled or empty. There is an overall policy period limit and the claims are subject to excess.

The usual conditions and exceptions as in corresponding sections from shopkeepers insurance are applicable. The premium rates vary from company to company.

Another section was added subsequently, i.e. for personal accident cover to the customers, their members or any other person on the premises due to the cylinders being installed. The premium rate for this cover is based on the number of customers or number of cylinders

2. Doctors' package insurance

The following cover is provided

a) Fire and allied perils in respect of building and contents Burglary / house-breaking, theft in respect of contents

b) Fidelity guarantee insurance for cashier / compounder / any other authorised employee

c) Money in transit with the doctor, his compounder or any other authorised employee

d) Loss of or damage to doctor's kit by fire, theft or accident during visits within the municipal city limits

e) All Risks cover for ECG machine and such other equipment pertaining to doctor's profession

f) Signboard

g) Professional liability insurance

Discounts

The coverage under "Section A" is compulsory. If two sections are covered a 10% discount in premium is available under the policy. If more than 2 covers are taken a discount of 15% is allowed.

3. Office protection shield(General office)

The policy offers coverage under 12 sections

Section I

Building (for owners)

i. Building including landlord's fixtures, fittings, boundary wall and fences

ii. This section covers fire and allied perils including EQ and STFI perils

Section II (A)

Office contents

i. Furniture, fixtures, fittings, electrical appliances, clothing and personal effects of insured or employees

ii. Perils covered - As per Section I, including burglary, robbery and dacoity

iii. Exclusions - As per Section I including erasure or breakdown of information contained in data carrying materials and/or consequential loss of any description

Section II (B)

Tenants' liability

i. Liability as a tenant for damage to office premises including fixtures and fittings

ii. Perils covered - As per Section II (A)

Section III

Money

i. Loss of money while in transit, on the premises during office hours and in safe after office hours.

ii. Perils covered - Any accident and/or misfortune

Section IV

Fixed glass and sanitary fittings including damage to frames

Risks covered - Accidental/Breakage

Section V

Fidelity guarantee of any salaried person employed by insured

Risks covered - Pecuniary loss caused by fraud and/or dishonest act.

Section VI (A)

Electronic equipment and data carrying material

i. Risks covered - Unforeseen sudden physical loss or damage due to any cause other than those specifically excluded
ii. Exclusions

- ✓ 10% of each claim
- ✓ Pre-existing faults or defects, wear and tear
- ✓ Loss due to climatic conditions
- ✓ Maintenance cost
- ✓ Loss or damage for which insured is contractually liable
- ✓ Defects or design or material for which suppliers are responsible

Section VI (B)

Cost of re-instatement of data and programme

i. Risks covered - As per section VI (A)
ii. Exclusions
- ✓ 5% of each claim
- ✓ Data carrying materials not stored as in makers instructions
- ✓ Erasure and corrupted from unidentifiable occurrence
- ✓ Intrinsic value of the data
- ✓ Cost incurred for false programme or alteration of programme

Section VI (C)

Portable computer whilst being carried anywhere in the world

Risks covered - As per Section VI (A)

Section VII

Additional expenses of rent for alternate accommodation if premises occupied is damaged and declared unfit for occupation

Perils covered - As per Section II (A)

Section VIII

Personal accident insurance for self and employees

Risks covered - Death, permanent total or partial disablement and temporary total disablement due to accident.

Section IX

Breakdown of office appliances and electrical and mechanical gadgets

Risks covered - Electrical and mechanical breakdown

Section X

Loss or damage to baggage belonging to self and/or employees whilst on journey anywhere in the world

Risks covered - Any accident and/or misfortune.

Section XI

Liability

i. Public liability and workmen's compensation - Death or bodily injury and/or damage to property of third party and liability for workers

ii. Risks covered - Negligence of self and/or any family members permanently residing with him

Section XII

Mediclaim

Expenses incurred during hospitalisation in any hospital or recognised nursing home.

Note

- ✓ Sections I and II (A) are compulsory for owners (building) insured
- ✓ Section II (A) compulsory for tenant (building) insured
- ✓ Minimum number of sections to be insured by owner is five
- ✓ Minimum number of sections to be insured by tenant (building) insured is four
- ✓ All the exclusions, warranties and conditions applicable to individual sections are applicable to the package policy

a) Discount for sections

i. For additional two sections above minimum sections described in c & d above (10% discount on premium)
ii. For additional four sections (15% discount on premium)
iii. For additional seven sections (20% discount on premium)

b) Renewal Claim free discount

i. First renewal (5%)
ii. Second renewal (10%)
iii. Third renewal (15%)
iv. Fourth renewal (20% maximum)

Note: Similar policy is available for professionals like Chartered Accountants, Financial Consultants, Architects and Engineers. Under this policy additional cover i.e. professional indemnity is provided

4. Adhikari suraksha kavach

This is a personal package policy designed for executives and/or businessmen

The coverage is as follows

Section I

Laptop / Portable computer

i. The company will indemnify the insured in the event of any unforeseen sudden physical loss or damage due to any cause, to the portable computer belonging to the insured and in the personal custody of insured, whilst anywhere in the world for the purpose of business or profession.

ii. Excess: 10% of claim amount or Rs.5000/- whichever lower.

Section II

Cellular phone

i. The company will indemnify the insured for the loss of or damage to cellular phone by theft and burglary, fire, lightning explosion, malicious or accidental damage due to external means, earthquake, flood, storm or electrical and mechanical breakdown.

ii. Excess: First Rs. 1000/- of each and every claim.

Section III

Loss of cash

In the event of loss of cash due to accident or misfortune happening during the currency of the policy when the insured is on official duty or on outstation tour, the company will pay to the insured the amount of such loss not exceeding the sum Insured and up to a maximum of Rs.5000/- during the policy period.

Section IV

Baggage insurance

i. In the event of damage to baggage due to accident or misfortune whilst on journey, anywhere in the world, the company will indemnify the insured in respect of such damage up to the actual value at the time of happening of damage but not exceeding the sum insured in any one period of insurance.

ii. Excess: First Rs.500/- in each and every loss or damage.

Section V

All risks (Jewellery & Valuables)

The company will indemnify the insured in respect of loss or damage to valuables caused by accident or misfortune whilst anywhere in India.

Section VI

Personal accident insurance

Provides a scale of benefits for lumpsum payment of accidental injuries resulting into various disabilities defined in the policy including transportation of insured's dead body to the place of residence, reimbursement of ambulance charges.

Section VII

Mediclaim

i. Re-imbursement of hospitalisation/domiciliary hospitalisation expenses incurred for illness/diseases or injury sustained.

ii. Benefits: As per standard mediclaim policy (individual)

Section VIII

Personal liability

i. The company will indemnify the insured against legal liability in respect of accidental death or injury to a third party or his property caused by fault of his property or caused by fault or negligence of the insured.

ii. Excess: Rs.2000/- in respect of third party property damage

Note

- ✓ Minimum three sections are to be taken
- ✓ If more than four sections are taken then 10% discount is allowed except on mediclaim section.
- ✓ However, for counting the number of sections, the mediclaim section is also to be taken into account

5. Package policy for credit – societies

The covers provided are

a) Section I Building & contents - Fire and allied perils

b) Section II Office contents – Burglary

c) Section III Money and pledged gold

- ✓ **On premises -** Fire and allied perils, burglary, hold-up
- ✓ **In transit -** Loss, theft due to negligence or fraud of employees or otherwise
- ✓ **Note**: The cover applies to dishonesty of employees, appraisers or pigmy collectors

d) Section IV Personal accident cover

e) Section V Pedal cycle

f) Section VI Plate glass & sanitary fittings

g) Section VII Mediclaim (individual basis)

6. Package policies – Trends

As already discussed, opening up of the insurance sector has given rise to a number of innovations in insurance products. Many insurers have come up with packaged covers suited to the customer needs. A number of new covers in the miscellaneous class of insurance business have been or are being introduced in the Indian market.

Most of these schemes are devised on a ‘package’ basis. The title of these policies and the coverage provided may vary among the companies. Therefore, only the salient features of some of these policies are outlined to illustrate the general approach

a) Complete family protection plans

i. This package policy protects the entire family and their home from any kind of danger that may befall it.
ii. It provides health insurance, home insurance and travel insurance etc. all under a single plan.
iii. There are 8 to 10 sections under this policy and the client is required to choose a specified minimum number of sections.
iv. If the client opts for more than the specified number of sections, he is entitled to a discount on the price.

b) Business package policies

i. Package policies have been designed to cover business enterprises (any manufacturing or trading unit) to cover the varied risks in their business.
ii. The risks covered under these policies include damages caused by fires and other related perils, earthquakes, terrorism, loss of rent and engineer’s fees. Cover is also provided for temporary relocation of the business in case of these dangers.
iii. In addition there are other covers that can be opted for by the businessman at his discretion. These include loss due to robbery, loss of stored money or money being transferred, equipment and machinery insurance, employee fidelity and workman’s compensation

Test Yourself 3

Choose the false statement.

I. Doctors’ package insurance covers money in transit with the doctor.
II. Doctors’ package insurance covers professional liability insurance.
III. Doctors’ package insurance does not cover professional liability insurance.
IV. Doctors’ package insurance covers fire and allied perils in respect of building and contents.

Summary

a) Package policies are those which combine different covers into a single policy.

b) Shopkeeper's insurance policy cover is normally spread over eleven sections which include loss of or damage to building/contents by fire, loss of money in transit due to accident/misfortune and legal liability of insured for death/injury to third parties etc.

c) Householder's insurance policy protects the insured against various perils such as loss of or damage to contents due to burglary and loss of or damage to personal baggage due to accident or misfortune whilst travelling anywhere in India etc.

d) The total premium for package policies depends upon the sum insured, the type and number of sections covered.

e) Some of the package covers prevalent in the market include Doctors' package insurance, Office protection shield and ADHIKARI SURAKSHA KAVACH etc.

Answers to Test Yourself

Answer 1

The correct option is II.

Loss resulting out of depreciation is not likely to be covered under shopkeeper's insurance policy.

Answer 2

The correct option is I.

Loss of or damage to personal baggage due to accident or misfortune whilst travelling anywhere across the globe is not likely to be covered under householder's insurance policy.

Answer 3

The correct option is III.

Doctors' package insurance covers professional liability insurance.

Self-Examination Questions

Question 1

Which of these is not a package policy?

I. Shopkeeper's insurance policy
II. Householder's insurance policy
III. Mediclaim
IV. Adhikari Suraksha Kavach

Question 2

With regards to Shopkeeper's insurance policy, choose the correct statement

I. Loss of profit due to interruption in business consequent upon loss sustained by property insured in Section A of the policy is covered
II. Personal accident cover for insured/his employees is not covered
III. Loss of or damage to Neon sign/Glow sign by accidental damage is not covered
IV. Legal liability of insured for death/injury to third parties is fully covered under the policy

Question 3

"Office Protection Shield" policy covers which of the following things

I. Office contents like fixtures, fittings, electrical appliances etc.
II. Fidelity guarantee of ex-employees
III. Pre-existing faults and defects
IV. Maintenance cost

Question 4

Adhikari Suraksha Kavach is designed for _________.

I. State Government employees only
II. Central Government employees only
III. Executives and/or businessmen
IV. Diplomats only

Question 5

Householder's insurance policy can be classified as __________.

I. Life insurance policy
II. Health insurance policy
III. General insurance policy
IV. Package insurance policy

Answers to Self-Examination Questions

Answer 1

The correct option is III.

Mediclaim is not a package insurance policy.

Answer 2

The correct option is I.

Loss of profit due to interruption in business consequent upon loss sustained by property insured in Section A of the policy is covered under Shopkeeper's insurance policy.

Answer 3

The correct option is I.

"Office Protection Shield" policy covers office contents like fixtures, fittings, electrical appliances etc.

Answer 4

The correct option is III.

ADHIKARI SURAKSHA KAVACH is designed for executives and/or businessmen.

Answer 5

The correct option is IV.

Householder's insurance policy can be classified as package insurance policy.

CHAPTER 10

SPECIALISED COVERS – THE NEW TREND

Chapter Introduction

The opening up of the insurance sector brought with it higher expectations from customers for tailor made insurance products. Products were expected to be need based with convenience of interpretation and implementation. Such a concept of special contingency cover is not a new one. However insurers are now focusing more in devising various new '**special contingency**' or '**special perils**' covers to suit individual customer requirements.

Learning Outcomes

A. Special contingency policies

Look at this Scenario

Be everywhere, do everything, and never fail to astonish the customer.

Customers today want the very most and the very best for the very least amount of money, and on the best terms. Only the companies that provide absolutely excellent products and services at absolutely excellent prices will survive. Quite often, many clients who may find conventional policies not fully catering to their complete requirements seek for specialised covers.

In today's dynamic world, we are witness to a whole new set of business lines, with completely different insurance requirements from their traditional counterparts. Also within the traditional segment, it is not a case of "One solution fits all". Insurance policies issued to lay persons have a different structure as compared to umbrella policies covering all properties of corporates with sum assured of over Rs 10,000 crore. The current crop of customers has a penchant for customised products and hence the insurers are coming up with innovative products to address this segment.

A. Special contingency policies

Special contingency policies were issued to risks which were not described or rated under any department. They were also issued when a client would like to club covers accorded by two or more departments. Some of the Special peris/Special Contingency covers are as follows

1. Cover for machinery / equipment

Ordinarily, the risk of fire and lightning are covered by the fire department and the other risks such as burglary and accidental external damage etc. are covered by the accident department.

However, to cater to the requirements of clients who desired to have all these risks in respect of their machinery and / or equipment or any other property covered under a single policy, insurers issued special contingency policies in the accident department.

The perils normally covered are fire, lightning, burglary and accidental external damage. Other perils can also be covered. Machinery and or equipment are covered under these policies, but there is no hard and fast rule in this regard and any property can be covered. If the insured property is fragile, an excess is imposed in respect of each and every loss arising from accidental external means.

The policy normally does not cover loss or damage caused by:

a) War and allied perils and nuclear risks
b) Riot, strikes and civil commotion (riot and strikes risks may be covered on payment of additional premium)
c) Earthquake, flood and such other convulsions of nature (sometimes covered on payment of additional premium)
d) Overloading or strain
e) Consequential loss, depreciation, wear and tear or mechanical breakdown

A Special Contingency Poicy should not be issued with an aim to cover the exclusions under a standard available poicy. However. Considering the market trend and the customer's expectations, perils which fall within the purview of insurance and can be insured are incorporated into the special contingency policy though they are otherwise excuded under standard policies..

The rate of premium charged varies from 1 percent to 2 percent of the value of the property to be covered.

The above types of covers can be deemed as special package covers.

2. Total abandonment of an arranged cricket match

A new type of special contingency policy has become popular in recent years. This relates to total abandonment of one day cricket match due to specified perils. These perils include fire, lightning, explosion, earthquake, rain, flood, storm, riot, strike, malicious damage and terrorist act.

The policy covers the actual financial loss suffered by the insured i.e. the organisers. The insured has to establish the extent of loss by submitting an audited account. It is a condition under the policy that no liability will attach even if a single ball is bowled. It should be noted that once a match, commences, subsequent abandonment would not constitute a loss. Similarly, change in venue or postponement of the match does not constitute a claim.

It is prescribed that the tickets issued shall contain a stipulation that once a ticket is sold no refund will be allowed. No refund of premium, if the policy is cancelled.

The policy seeks to indemnify the insured (organisers) for the non-recoverable expenditure which areI incurred. If a claim is admissible, the insurers calculate the quantum of loss by analysing and examining the non-recoverable expenditure lost by the insured.

Exclusions

The important exclusions usually applied are

a) Loss of profit or consequential loss of any description
b) Contractual liability, which would not have attached in the absence of such agreement
c) Bad debts or irrecoverable revenue
d) Liability for injury to any person or damage to any property
e) War and allied perils

Occasionally similar cover is asked for in respect of other sports like football matches.

The policy can also be extended to include liability cover for the organisers in case of injury or death to the spectators of the match, participants of the event, liability to the players/spectators etc. The coverage has to be specified (per accident and per person limits) and will continue throughout the match/event.

In recent times, extension is also provided for loss of profits in case of abandonment or cancellation of the match. For this cover, the amount to be indemnified has to be pre-decided, depending upon the expected rate of profits, the standing charges and the other variables.

3. Event insurances

Event insurances like New Year parties, birthday parties, film festivals, beauty contests, orchestras and musical nights etc. are the most sought after insurances today.

The coverage normally sought for are as follows.

a) Cancellation of event due to accident or illness to the performers
b) Cancellation of the event due to specified perils like fire, riot, strike and AOG perils etc
c) Liabilities cover for spectators, participants and performers
d) “Loss of profit” cover due to cancellation or postponement of the event

The sum insured for the basic cover is the amount of non-recoverable expenses incurred by the insured. The liability coverage is pre-decided. Any one accident limit and any one individual limit are to be specified. In case there are more than one location, the per location limit should also be specified.

4. Exposures requiring fire and allied perils cover as well as marine, burglary and theft covers for portable items

All exposures requiring the above covers combined into a single policy, was usually covered under a special contingency or special perils policy. E.g. Laptops, mobiles, film and high value cameras, specialised machinery which needs to be moved from one place to another etc.

The following points need to be noted whilst insuring such kind of subject matter.

i. The valuation of the subject matter

It is usually given for an agreed value. If not, then the aspect of underinsurance and depreciation has to be made specific.

ii. The exclusions under the policy should be specified with care

Along with the usual exclusions, it is important to pay attention to specific definite losses which need to be expressly excluded.

iii. The perils covered should be specified

It is not advisable to give an all risk cover to such property.

However, in view of the stringent File and Use guidelines, discussed elsewhere, it is not easy to issue special contingency policies. Individual insurers have their own guidelines on the same. Thus, based on the underwriting policy of each company, insurers can design special perils covers if the same is not given under any other nomenclature.

5. Other policies available in the present market

Policies designed for changing living standards and style

Living standards and life styles have changed drastically. Yesterday’s luxuries are today’s comforts. As lifestyles change with time and age, individual needs evolve too. Products and services that were non-existent a decade ago have now become the most sought after.

Product development and innovations have gained momentum in the present market. To adjust to customer needs, add-on covers are given under existing policies and new policies and coverage are designed. Some such novel covers are enumerated below.

a) Identity theft cover

If a person incurs losses due to theft of his identity and fraudulent usage thereof, he gets compensated. Modern commercial world has brought with it associated risks. Use of debit and credit cards has increased manifold. People have become vulnerable to theft and subsequent losses arising from such cards, for which they are legally liable to pay. To take care of such losses and the costs incurred for efforts to resolve the theft and the issue thereof is sought to be covered.

The cover is restricted to a minimum number of hours prior to reporting the loss to the card issuers. The indemnity is limited to the charges made on the debit/credit card in those prescribed number of hours, by the thieves.

Specific exclusions

i. Charges more than specified number of hours prior to first reporting the loss of the card

ii. Charges post reporting the loss of the card

iii. Cash advances made by card

iv. Charges incurred by a person whom the card was entrusted to

v. Monetary losses unrelated to resolution of identity theft

vi. Physical injury, sickness, disease, disability, shock, mental anguish and emotional losses

vii. Any loss which is compensated by any other source e.g. Employer, credit card company etc.

b) Money policy to individuals for withdrawals from ATMs

Loss of money withdrawn from ATM within a specified time limit due to robbery, injuries and consequent medical expenses incurred due to such robbery can be covered as an extension. Cost of replacement of documents lost during such robbery can also be covered as an extension.

Normally, the specific exclusions under the above cover are:

i. Cover to cheques, transportation tickets and similar items
ii. Loss or damage caused by an event other than theft or robbery
iii. Accidental damage to wallet and items inside
iv. Fraudulent charges on the lost or stolen payment cards/documents
v. Any identity theft related costs caused by lost or stolen personal papers

The general exclusions under the above covers are:

i. Any kind of illegal act on the part of the insured
ii. Intentional loss/damage
iii. War, invasion, act of foreign enemy, civil war, rebellion, terrorism, riot and civil commotion etc
iv. Loss arising from the order of any Govt. or public authority
v. Nuclear perils

c) Kidnap and ransom insurance

This insurance is designed to protect individuals and corporations operating in high-risk areas around the world. K&R insurance policies typically cover the perils of kidnap, extortion, wrongful detention and hijacking.

K&R policies are indemnity policies; they reimburse a loss incurred by the insured. The policies do not pay ransoms on the behalf of the insured. The insured must first pay the ransom, thus incurring the loss, and then seek reimbursement under the policy. Losses typically reimbursed by K&R polices are ransom payments, loss-of-ransom-in-transit and additional expenses, such as medical expenses.

The policies also typically indemnify personal accident losses caused by a kidnap. These include death, dismemberment, and permanent total disablement of a kidnapped person. They also pay for the fees and expenses of crisis management consultants. These consultants provide advice to the insured on how best to respond to the incident.

The policies may be written to cover families and corporations. Some policies include kidnap prevention training.

d) Intellectual property insurance

Intellectual property insurance coverage protects companies for patent, copyright or trademark infringement claims arising out of the company's operation. It pays the defence costs and any judgement up to the policy limits.

Let us look at these three items.

i. Patents

The idea of a patent is to give an inventor the right for a time to stop other companies, or persons trying to make, use or sell an invention, without the expressed permission of the creator/ inventor.

A patent is granted by the Government to the inventor, and the invention becomes the property of the inventor. The inventor then has an asset which could be bought, sold or leased.

ii. Trademark

Trademark is the distinctive unique identification of one's organisation, product or service offered. The registration of a trade mark must have the following criteria:

- ✓ The trademark must be individually distinctive for the goods or services that are applied for
- ✓ The trade mark must not be misleading, break any laws or be in any way immoral
- ✓ The trade mark must not be similar or identical to other trademarks regulated for similar goods or services

iii. Copyright

There is, in fact, no official register for copyright, it is an unregistered right. A copyright comes into effect as soon as something is on paper, film, sound recording or on the internet etc. The areas that copyright protects are

- ✓ Things such as novels, lyrics for songs, software programs and newspaper articles etc
- ✓ Original works of music, dance, art, photography, maps, logos and diagrams.
- ✓ Broadcasts, films, videos, published works, recordings on any mediums, DVD's, tapes and CD's

Copyright, however, does not protect ideas but only the way the idea is presented in a specific way.

Intellectual property rights insurance works in two ways.

Firstly if somebody encroaches upon one's copyright, trademark or patent, the insured can sue the person. Associated costs restricted to sum insured are reimbursable.

Secondly intellectual property insurance is needed if a threat exists that one could be sued by a competitor for infringing on an idea or intellectual property belonging to someone else.

As long as one is not aware of any known infringements or violations, one can apply for insurance to protect his/her trademark or patent. However in order to get coverage, one has to prove that they have completed an intellectual property search, or have filed a registration for a trademark, service mark, copyright or patent.

The policies offer cover against the following areas

- ✓ Legal expenses to defend rights of the insured
- ✓ Legal expenses to enforce such rights
- ✓ Legal expenses to defend agreements of the insured
- ✓ Damages awarded if defence is unsuccessful
- ✓ Expert witness, enquiry and attendance expenses

A number of criminal and civil offences exist in copyright law. Careful consideration needs to be given to determine if the offence is indeed criminal or if it is a matter that can be resolved under civil law. Intellectual property laws vary greatly from country to country. Many developing countries and even some former Soviet and eastern European countries have insufficient protection for copyright holders, either due to a reluctance to enforce existing intellectual property laws or because such laws do not yet exist.

e) E-Commerce insurance/Web business insurance

Insurance is a necessity for any type of business. E-commerce companies face unique challenges. E-Commerce companies are companies that use internet to advance their business. Right from exhibiting the products till the closure of sale and also after sale services are done through internet. These entities face many risks such as the transmission of viruses and loss due to computer fraud. E-commerce insurance aims at covering these kinds of losses. The coverage available under this insurance is as follows

i. Protection against crime, hacking, or compromised data in an e-commerce insurance policy

E-commerce insurance protects companies against a number of potential risks incurred from doing business online. Potential risk factors for small businesses with websites include getting hacked, spammers and troubles with online service functionality. The insidious criminals who perpetrate online crimes necessitate obtaining e-commerce insurance to protect company and customer information. If a business website gets hacked, the company and its customers are at risk for viruses and violations of personal and financial information.

Traditional business liability insurance and insurance policies for business owners are not enough to protect a company that suffers a website-related loss. Property insurance coverage for a business protects against physical damage, and does not protect companies against cyber attacks. Traditional business liability insurance will not protect a company from website copyright infringement or from unauthorised access of customer information online, two major causes of internet-related lawsuits

As more and more companies struggle with the ever-increasing threat of online crimes, e-commerce insurance has become a necessity.

ii. Types of web business insurance covers available

Web business insurance covers can help compensate companies that experience a website-related loss. Business liability insurance in an e-commerce insurance policy provides coverage for legal liability that arises from online crimes including unauthorised access of customer information. Web business insurance provides reimbursements that are internet-specific in nature.

In addition to frauds and allied risks, e-commerce insurance also covers the following.

iii. Business interruption insurance for e-commerce retailers

Downtime means lost revenue for e-commerce companies. For example, the business could lose thousands of rupees in sales if the server fails and the e-commerce storefront is down for any length of time. However, e-commerce insurance may not cover the loss if the merchant forgot to pay the hosting bill, resulting in the suspension of service by the hosting company.

iv. Web business insurance claims

- ✓ Examples of web insurance claims for businesses might include paying for customers' identity theft monitoring costs or paying for legal costs. These are both likely outcomes after a website has been hacked.

- ✓ Misappropriation of funds that are redirected by hackers, the direct threat of a website hack or virus as an extortion tactic, system problems caused by viruses and spoofed emails (that look like they originated from the company) are just a few of the covered risks in an e-commerce insurance policy.

- ✓ However, within that market there are several different variations, the difference being what amount, if any, what liability coverage is offered for indemnity and defence, because of theft of or dissemination of data, information, etc., of others, for which the insured is liable.

Some of the new forms provide coverage only for professional services liability and media errors and omissions liability. Some other forms provide coverage only for employee dishonesty and third-party malicious conduct, such as crime and extortion (both for loss of property, money, securities, etc., as well as for business interruption and extra expense).

Test Yourself 1

Event insurance coverage is not likely to include _________.

I. Cancellation of event due to accident or illness to the performers
II. Cancellation of the event due to specified perils like fire
III. Liability cover to spectators, participants and performers
IV. Loss of profit due to the failure of the event.

Summary

a) Special contingency policies were issued to risks which were not described or rated under any department.

b) Special contingency policies providing cover for machinery / equipment have rate of premium charged varying from 1 percent to 2 percent of the value of the property to be covered.

c) Total abandonment of an arranged cricket match, event insurances etc. are types of special contingency policies.

d) Other policies available in the present market include identity theft cover policies, kidnap and ransom insurance etc.

e) Intellectual property insurance coverage protects companies for patent, copyright, or trademark infringement claims arising out of the company's operation.

f) E-commerce insurance protects companies against a number of potential risks incurred from doing business online.

Answers to TestYourself

Answer 1

The correct option is II.

Loss of profit due to failure of an event is not likely to be covered under event insurance.

Self-Examination Questions

Question 1

Choose the correct statement. Identity theft cover excludes _________.

I. Charges post reporting the loss of the card
II. Charges prior to reporting the loss of the card
III. Charges within specified number of hours prior to first reporting the loss of the card
IV. Charges incurred by the owner of the card

Question 2

Choose the incorrect statement with regards to Kidnap and ransom insurance.

I. Kidnap and ransom policies are indemnity policies
II. Kidnap and ransom policies also typically indemnify personal accident losses caused by a kidnap
III. Kidnap and ransom policies may include kidnap prevention training.
IV. Kidnap and ransom policies pay ransoms on the behalf of the insured.

Question 3

Intellectual property insurance coverage protects companies for __________ infringement claims.

I. Patent
II. Copyright
III. Trademark
IV. All of the above.

Question 4

Web business insurance coverage is not likely to include

I. Loss due to cyber attacks
II. Losses from server downtime as a result of non-payment of hosting charges
III. Legal liability arising out of online crimes including unauthorised access of customer information
IV. Accidental loss of server data

Question 5

An insurance policy for total abandonment of an arranged cricket match would exclude which of the following conditions?

I. Loss of profit or consequential loss of any description
II. Loss arising out of cancellation of the match
III. Loss arising from abandonment of a match due to fire
IV. Loss arising from abandonment of a match due to lightning

Answers to Self-Examination Questions

Answer 1

The correct option is I.

Identity theft cover excludes charges post reporting the loss of the card.

Answer 2

The correct option is IV.

Kidnap and ransom policies pay ransoms on the behalf of the insured.

Answer 3

The correct option is IV.

Intellectual property insurance coverage protects companies for patent, copyright and trademark infringement claims.

Answer 4

The correct option is II.

Web business insurance coverage is not likely to include losses from server downtime as a result of non-payment of hosting charges.

Answer 5

The correct option is I.

An insurance policy for total abandonment of an arranged cricket match would exclude loss of profit or consequential loss of any description.

CHAPTER 11

REINSURANCE

Chapter Introduction

The chapter introduces you to the concept of reinsurance. We look at the factors that decide the amount of reinsurance needed. We then focus on the various types of reinsurance agreements that exist in the market. Finally we have a short look at the reinsurance programme in India.

Learning Outcomes

A. Reinsurance

Look at this Scenario

Delta Insurance is a new entrant into the insurance market. Delta Insurance gets lucky and writes policies totalling 800 million. The regulator requires that Delta Insurance maintains sufficient level of capital and reserves to be able to pay expected claims. One of the ways to meet this statutory requirement is to have all the capital and reserves in cash or cash equivalents.

What is the other way?

The other way is to have a reinsurance structure that is approved by the financial authorities of the insurance regulator. The reinsurance market is the secondary market for insurance risks. Direct insurers rarely trade risks with each other. Rather, they cede part of their primary risks to specialised professional reinsurers who have no primary business. In exchange for providing reinsurance services, the reinsurer usually gets a premium from the ceding company, which may be a share of the original premium minus commissions or another mutually agreed-upon amount. The main aim of reinsurance is to spread risk to enable the insurance industry to function effectively and efficiently.

A. Reinsurance

1. Concept

The concept of reinsurance is the logical extension of the concept of insurance. Reinsurance serves to underwrite the risk/liability of an insurer more or less in the same way as insurance serves to indemnify the insured with respect to his interest. The basic underlying principle is one of spreading the risk as far and wide as possible.

Reinsurance fulfils this purpose by allowing the insurer to so restrict the size of his commitment as to limit his maximum loss on the risk to an amount which he can pay without seriously disturbing his financial structure.

The maximum amount of risk which the insurer retains on his books varies from risk to risk and is called retention of the insurer with respect to the risk. The factors which govern the determination of this limit are as under:

a) The nature of the risk
b) Location of the risk
c) The nature of the perils covered
d) The insurer's capacity to bear the loss to the limit of retention without seriously jeopardising his financial position
e) Whether the number of risks identical to the risk under consideration is sufficiently large so as to allow for the play of the law of large numbers

2. Types of reinsurance

Reinsurance agreements can be classified as

- ✓ Facultative
- ✓ Treaty

Let us look at both of them briefly.

a) Facultative reinsurance

Under Facutative Reinsurance, each risk is proposed separately and individually to the reinsurer and the reinsurer decides whether to accept the same or not. Infacultative reinsurance it is not obligatory for the ceding company to cede to any particular accepting company nor is it obligatory for the accepting company to accept the ceding company's each and every offer.

The accepting company, at its discretion, may reject the offer or accept only a part thereof. The accepting company has a sight of the brief particulars of the risk, rates and terms of acceptance of the ceding company and the retention of the ceding company, before the accepting company can decide on its share.

b) Treaty reinsurance

Under the treaty reinsurance, a formal agreement is drawn up between the ceding company and a group of reinsuring companies. In terms of the agreement the ceding company is bound to cede and the reinsurers are bound to accept each and every cession which falls within the scope of the treaty.

In the past it was usual for the ceding company to submit detailed cession-wise and claim-wise statements or boarderaux together with commission recoverable from or payable to the reinsurers. But off late the tendency has been to avoid the item-wise details and furnish accounts incorporating only the premium, claim and commission tabulations. This latest development in the administration of treaty reinsurances has resulted in the treaty being termed as "**blind treaty**" in technical parlance.

The different types of treaty reinsurances which are transacted are as under

Proportional type:

- ✓ Quota share basis
- ✓ Surplus basis
- ✓ Pool basis

Non proportional type:

- ✓ Excess of loss
- ✓ Stop loss basis

Let us look at each type mentioned above

i. Quota share treaty method

- ✓ Under the quota share treaty the risks are shared by the ceding company and its reinsurers in some predetermined proportion.
- ✓ Administration involves pro-rata cessions of premium and pro-rata recoveries on claims.

ii. Surplus treaty method

Now days, the surplus basis reinsurance is the most common form of treaty reinsurance. Under this arrangement the ceding company reinsures with the treaty reinsurers surpluses over and above its retention in terms, and within the size of, the treaty. The size or capacity of a treaty is expressed in integral multiples of the ceding company's line, (i.e. retention)

Example

A treaty of 19 line size or capacity means that the treaty reinsurers will automatically be interested on the risk surpluses beyond the ceding company's retention up to a maximum of 19 lines.

There may be more than one surplus treaty depending on the size of the risks the ceding company may have and the facility that they may require. These treaties are known as First surplus, Second surplus, and Third surplus and so on.

Administration of accounts with respect to a treaty is on the basis of premium/claim bordereaux which are detailed item wise statements of cessions and claims. In addition there will be commissions recoverable from the treaty reinsurances. As already observed the modern tendency is to administer treaties on the 'blind' basis and submit consolidated summaries of accounts quarterly or half yearly.

iii. Pool basis

In this kind of reinsurance, Companies cede a particular percentage of their premium to a pool formed by a Group of Companies or by the regulators, for better management of risk. E.g. Terrorism pool, Motor TP Pool etc.

iv. Excess of loss reinsurance

The latest form of effecting reinsurance is on the excess of loss basis. Here the ceding company bears up to a fixed sum of losses in respect of a claim or claims arising out of a single event in a particular class of business. This limit up to which the ceding company bears losses arising out of single event is called the "loss" or "underlying net" retention of the ceding company.

Any loss beyond the ceding company's loss retention is to be borne by the excess of loss treaty reinsures. This virtually means that the ceding company is interested on the full risk subject, however to the condition that losses beyond the ceding company's loss retention will be shouldered by the excess of loss reinsures.

In consideration of the cover given by the reinsures to the ceding company, the ceding company pays a definite percentage of the premium in respect of the entire business. Under the excess of loss arrangement it is usual not to provide for any agency commission terms.

This arrangement of reinsuring on the excess of loss cover is found to be of particular advantage in motor insurance, public liability insurance and other classes of miscellaneous accident insurances involving liability insurance.

v. Stop loss reinsurance

The same principle underlying the excess of loss arrangement can be extended so as to protect the ceding company not only in respect of any loss / losses arising out of a single event beyond its loss retention, but also in respect of losses on its entire net account relating to a particular class of business. Thus the ceding company can so protect itself that its net claim ratio for any one accounting year does not exceed a predetermined percentage.

Example

If the pre-determined percentage is set down at 80% the reinsurers share the losses in such a way as to restrict the ceding company's net loss ratio to 80%.

This arrangement of reinsurance is called the stop loss arrangement, since as the name indicates the net losses of the ceding company are stopped at a particular level.

c) Upper limits for reinsurance

Under the excess of loss cover it is usual to fix an upper limit to the liability of the excess of loss reinsurer. Once this limit is reached the balance, if any, of the losses in anyone event will fall back on to the ceding company.

Likewise, under the stop loss arrangement the stop loss reinsurers will absorb losses only up to the upper limit of the percentage mentioned above. Should there be any balance of losses, an in the case of excess of loss cover, this will fall back on to the ceding company.

3. Reinsurance programme in India

Under the provision of the Insurance Act 1938 (as amended) a fixed percentage of each and every risk underwritten in India has to be compulsorily reinsured with the G.I.C. of India. This percentage was 20% and later reduced to 10 % and is called **'Statutory Cessions"**. It may vary from time to time. The reinsurance arrangements are as per the IRDA regulations.

Test Yourself 1

Proportional reinsurance agreements do not include _____________.

I. Quota share agreements
II. Surplus share agreements
III. Pool basis agreements
IV. Stop loss agreements

Summary

a) The basic underlying principle is one of spreading the risk as far and wide as possible.

b) The maximum amount of risk which the insurer keeps on his books and which varies from risk to risk is called retention of the insurer with respect to the risk.

c) Under facultative reinsurance it is not obligatory for the ceding company to cede to any particular risk, nor is it obligatory for the accepting company to accept the ceding Company's each and every offer.

d) Under treaty reinsurance agreement the ceding company is bound to cede and the reinsurers are bound to accept each and every cession which falls within the scope of the treaty.

e) Quota share, surplus share and pool basis are examples of proportional reinsurance.

f) Excess of loss / Stop loss are non-proportional reinsurance sharing agreements.

g) Under the excess of loss cover it is usual to fix an upper limit to the liability of the excess of loss reinsurer.

Answers to TestYourself

Answer 1

The correct option is IV.

Stop loss agreements are non-proportional reinsurance agreements.

Self-Examination Questions

Question 1

The factors governing retention limit of the insurer include which of the following?

I. Nature of the risk
II. Location of the risk
III. Insurer’s financial position
IV. All of the above

Question 2

What is false regarding facultative reinsurance?

I. It is not obligatory for the ceding company to cede any risk
II. It is not obligatory for the reinsurer to accept
III. Administrative costs are low as compared to treaty reinsurance
IV. Administrative costs are high as compared to treaty reinsurance

Question 3

What is false regarding treaty reinsurance?

I. It is obligatory for the ceding company to cede all risks within the scope of the treaty
II. It is obligatory for the reinsurer to accept any risk within the scope of the treaty
III. It is not obligatory for the ceding company to cede any risk but the reinsurer has to accept all the cessions.
IV. Both the reinsurer and the ceding company are bound by the treaty agreement

Question 4

Excess loss reinsurance is a _______________ reinsurance agreement

I. Proportional
II. Non-proportional
III. Loss making
IV. Invalid

Question 5

What is true regarding "Stop loss" reinsurance?

I. The arrangement protects the ceding company against losses beyond a certain percentage
II. Once stop loss level is breached, the reinsurer absorbs all the losses without any upper limit
III. Stop loss reinsurance implies the reinsurance contract is terminated after a certain degree of loss
IV. None of the above

Answers to Self-Examination Questions

Answer 1

The correct option is IV.

The factors governing retention limit of the insurer include nature of the risk, location of the risk and insurer's financial position.

Answer 2

The correct option is IV.

Administrative costs in facultative reinsurance are high as compared to treaty reinsurance.

Answer 3

The correct option is III.

In treaty reinsurance it is obligatory for the ceding company to cede all risks within scope of agreement and reinsurer has to accept all the cessions.

Answer 4

The correct option is II.

Excess loss reinsurance is a non-proportional reinsurance agreement.

Answer 5

The correct option is I.

Stop loss reinsurance protects the ceding company against losses beyond a certain percentage.

CHAPTER 12

RURAL INSURANCE – I

Chapter Introduction

This chapter deals with various aspects of rural insurances. It discusses various regulations, role of Government and types of rural insurances ranging from Cattle Insurance to Aquaculture Insurance.

Learning Outcomes

A. Regulations in rural insurance
B. Role of Government in rural insurance and Market Agreements
C. Various animal insurance schemes

Look at this Scenario

The rural sector is one of the major sources of economic growth of our country. Rural development has become an integral part of development schemes. It has gained paramount significance in the Five Year Plans. Constant efforts are being made by the Central and State governments for upliftment of the rural society and the rural living standards across the country.

In the case of banking sector, the RBI always encourages banks to open their branches in the rural areas. In the insurance sector as well, as per Insurance Act and IRDA regulations; every insurer shall undertake such percentages of insurance business in the rural or social sector as specified in the Official Gazette of the Authority.

A. Regulations in rural insurance

According to Section 32 C, every insurer shall provide insurance policies to the persons:

a) Residing in the rural sector

b) Working in the unorganized or informal sector

c) Who are economically vulnerable

d) Who belong to backward classes of the society and other category of persons

e) Such insurance policies shall include insurance for crops.

Every general Insurer is expected to ensure that the below mentioned percentage of the Gross premium Income, comprises of premium generated in the rural or social sector.

a) Two per cent in the first financial year

b) Three per cent in the second financial year

c) Five per cent in third to seventh financial years

d) Six per cent in the eighth financial year

e) Eight per cent in the ninth & tenth financial years and the financial years thereafter

Definition

Covers that are focused in covering the risks of the rural folk are known as rural insurances.

These insurances were earlier governed by market agreement and are dealt with in this chapter. However, presently, each Company has to conform to IRDA regulations stated above and have their own underwriting policy.

The title of these policies may vary from company to company but the cover may, broadly speaking, be similar with some differences.

Generally, rural policies comprise the insurance of the following:

a) Cattle, sheep and goat, work horses etc., camels, poultry and shrimps and prawns.

b) Other livestock e.g. elephants, pigs, rabbits, etc.

c) Sub-animals e.g. silkworm and honey bee

d) Plantations e.g. rubber, tea, sugarcane, etc.

e) Horticultural crops e.g. grapes, oranges, apples, etc.

f) Property e.g. agricultural pump sets, etc.

g) Package covers, e.g. animal driven cart, rural accidents, farmers package etc.

The following should be noted in regard to rural insurance policies:

- ✓ These policies are under constant review and are modified from time to time.
- ✓ New schemes are being introduced in response to need and demands.

B. Role of government in rural insurance and market agreements

1. The Role of Government

It has been estimated that the small and marginal farmers constitute about 52% of the total rural households. In order to extend the benefit of planned development to the small cultivators and the underprivileged section of rural population, special programmers, particularly suited to these classes of people, have been launched by the Government of India.

These programs are popularly known as **Small Farmers Development Agency (SFDA)** and **Marginal Farmers and Agricultural Labourers (MFAL) Projects**.

Under these projects, crop production receives major emphasis. The possibilities of supplementing small farmers' income and utilisation of farm family labour more profitably, through subsidiary occupation like cattle, sheep, pig, poultry rearing etc. also receive priority.

There are several other programs with the same objectives. Since 1980, Drought Prone Areas Program, Hill Areas Program, Tribal Areas program, Small Farmers and Agricultural Labourers Program, have been integrated into Integrated Rural Development Program, which also includes programs like special Animal Husbandry Program, Special Livestock Production Program, etc.

The Integrated Rural Development Program (IRDP) is a centrally sponsored scheme founded by the Central Government and the States on 50:50 basis.

The objective of the program is to assist the families below the poverty line in rural areas to cross this line by taking up self-employment ventures.

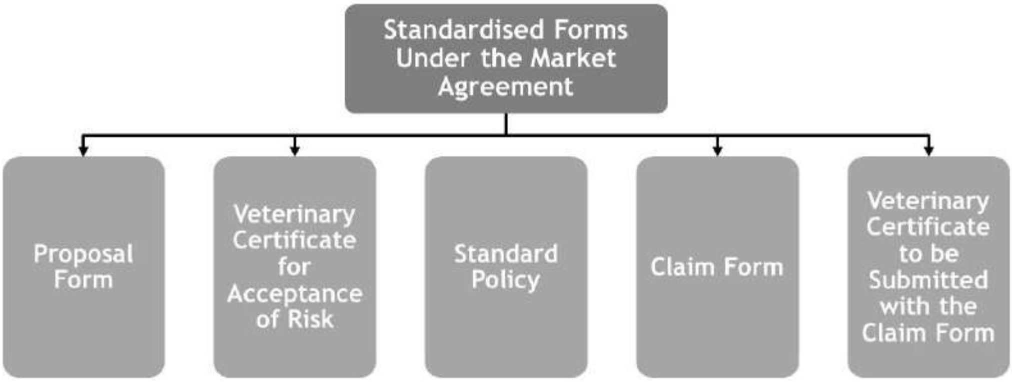
The program aims to achieve this objective by providing income generating assets including working capital, where necessary, to the target group families through package of assistance comprising of subsidy and institutional credit.

(**Note:** Special insurance schemes designed to protect the beneficiaries of IRDP projects have been introduced)

2. Market agreements

Previously, market agreements had been formulated by the G.I.C. for the insurance of cattle, poultry, sheep and goats, work horses, etc., camels and shrimp and prawns.

Diagram 1: Standardised forms under the market agreement



All market agreements made provisions for the following:

- ✓ Scope of the agreement
- ✓ Applicability of the Scheme
- ✓ Age limits for acceptance
- ✓ Sum insured and valuation
- ✓ Premium rates / short period scale / Minimum Premium
- ✓ Veterinary certificate for acceptance of risk
- ✓ Claim procedure.

The following documents, amongst others, are required to be submitted in case a claim is reported:

- ✓ Complete claim form
- ✓ Death certificate from a veterinarian
- ✓ Post mortem report if required by the company, etc.

Test Yourself 1

Market agreements had been formulated by the G.I.C. for the insurance of cattle, poultry, etc. Which of the following forms had not been standardised under the agreement?

I. Standard policy
II. Claim form
III. Underwriting certificate to be submitted with claim form
IV. Proposal form

C. Various animal insurance schemes

1. Cattle insurance

Prior to nationalisation of general insurance in 1973, cattle insurance was transacted, on a limited scale by a few companies. The premium rate was over 6% but the claims experience was not satisfactory.

During 1974, the nationalised companies introduced cattle insurance on a country wide basis and about 30,000 animals were insured. But the premium rate varied from 8½ % to 5%.

The G.I.C. decided to introduce a Market Agreement to standardise the premium rates and other terms and conditions, with effect from 1-04-1976 (revised from 1-10-1997).

a) Integrated Rural Development Programme (IRDP)

This programme was initiated by the Government of India during 1976-77. It was designed to help the people in the weaker sections such as small and marginal farmers, etc. through provision of subsidy inputs and assets. Cattle, Sheep and goat, poultry etc. are purchased and supplied to the beneficiaries.

Special schemes of insurance have been introduced for the IRDP Programme - Milch Cattle from 1977 and cross bred female calves, heifers and bullocks (agricultural purpose) etc. from 1980.

The various special schemes were merged into one integrated insurance scheme in 1984. Under this scheme Master Policies are issued to State Governments and District Rural Development Agencies (DRDA) covering various beneficiaries under IRDP and similar other programmes. Under this insurance scheme, rates of premium are lower and insuring and claims settling procedure is simplified.

(**Note:** Whenever the work “Scheme” is used it refers to animal, birds etc. financed and subsidised through IRDP)

Though the concept of Market Agreement no longer exists, cattle insurance is based on the following premises.

Definition

The word 'Cattle' for the purpose of insurance refers to the following animals whether indigenous, exotic or cross bred, within the age limit indicated.

Milch Cows	2 years to 10 years
Milch Buffaloes	3 years to 12 years
Stud bulls (Cow / Buffaloes species)	3 years to 8 years
Bullocks (Castrated bulls and Castrated male buffaloes)	3 years to 12 years

b) Valuation and sum insured

The market value of cattle varies from breed to breed, from area to area and from time to time. The sum insured is based on market value as recommended by a veterinarian. Indemnity is based on sum insured or market value whichever is less.

In case of scheme animals, the policy is issued as agreed value policy and claims are settled for 100% of sum insured.

c) Premium

The normal premium rates are as follows, which vary between insurers.

No.	Species	Covers	
		Death	PTD Extra
1	Scheme Animals (Indigenous / cross bred)	2.25% (Net)	0.85% (Net)
2	Non-Scheme Animals (Indigenous / cross bred)	4.00% (gross)	1.00% (gross)
3	Exotic Animals	4.00% as above plus 2.00% extra	1.00%

The premium rates indicated are the minimum which used to be charged. In case of adverse claims ratio, following Malus system was adopted.

% Claim Ratio	Percentage of Malus
100 to 110	20%
111 to 130	33%
131 to 160	60%
161 to 200	100%
Above 200	Premium rate to be adjusted such that Claim Ratio would appear as 90% for the rate.

d) Discount

Group discount (for non-scheme only) is available on a slab basis according to number of animals 5-10, 11-15 and so on. Long term discount is also available for non-scheme animals for 3, 4, 5 years and above and policies. For Scheme animals, rates are reduced for long term policies.

e) Insurance coverage

Standard policy wordings for Cattle Insurance as per the specimen incorporated in the Agreement provided for indemnity only for death due to:

- ✓ Accident (Inclusive of fire, lightning, flood, inundation, storm, hurricane, earthquake, cyclone, tornado, tempest and famine)
- ✓ Diseases contracted or occurring during the period of this policy.
- ✓ Surgical Operations
- ✓ Riot and Strike

The policy could be extended to cover PTD on payment of extra premium:

i. Permanent Total Disability which, in the case of Milch Cattle results in permanent and total incapacity to conceive or yield milk.

ii. PTD which in the case of Stud Bulls results in permanent incapacity for breeding purpose.

iii. In case of Bullocks, Calves / Heifers and Castrated male buffaloes results in permanent and total incapacity for the purpose of use mentioned in the proposal form.

f) Transit cover

i. For Scheme animals, no extra premium is to be charged for transit of animal from the place of purchase to the place of stabling. For non-scheme animals, the maximum distance was specified (not exceeding 80 km).

ii. In case of transfer of animal during currency of policy, transit cover can be extended to the new owner without any additional premium in case transit is within 80 km.

iii. In case the transit is for more than 80 km, an additional premium of 1% to be charged and such transit shoud ony be by road or rail and not by foot.

g) Exclusions

i. Malicious or willful injury or neglect, overloading, unskillful treatment or use of animal for purpose other than stated in the policy without the consent of the Company in writing.

ii. Accidents occurring and/or Disease contracted prior to commencement of risk.

iii. Intentional slaughter of the animal except in cases where destruction is necessary to terminate incurable suffering on humane consideration on the basis of certificate issued by qualified Veterinarian or in cases where destruction is resorted to by the order of lawfully constituted authority.

iv. Theft and clandestine sale of the insured animal.

v. Pleuro pneumonia in respect of cattle in Lakimpur and Sitasagar district of Assam.

vi. Transport by air and sea.

h) Special conditions

i. The company is usually not liable to pay the claim if death is due to disease occurring within 15 days from the commencement of risk.

ii. Claim is not entertained unless the ear tags are surrendered to the Company. If the ear tags are lost the insured is responsible to notify the Company and get the animal retagged.

i) Other conditions

i. The policy shall be void and premium forfeited if the insured:

- ✓ Has not disclosed material facts
- ✓ Has made a false claim or
- ✓ Has not observed the terms and conditions of the policy

ii. Every insured animal must be in sound health and free from injury at the time of insurance or renewal.

iii. The company has a right to inspect the animal and premises of the insured

iv. In the event of illness or accident, the insured must cause the animals to be treated by a qualified Veterinarian and also give notice to the Company.

v. The Insured shall provide to every animal proper food, water and shelter and take precautions against loss. Each insured animal shall be given the same care and attention as if not insured.

vi. On the death of insured animal the insured shall:

- ✓ Give immediate notice to the Company.
- ✓ Provide the Company with an opportunity of inspecting the carcass and
- ✓ Furnish particulars supported by Veterinary certificate as to proof of death, identity and value of the animal etc.

vii. If there is any other policy covering the same animal, liability will be limited to the rateable proportion of the loss.

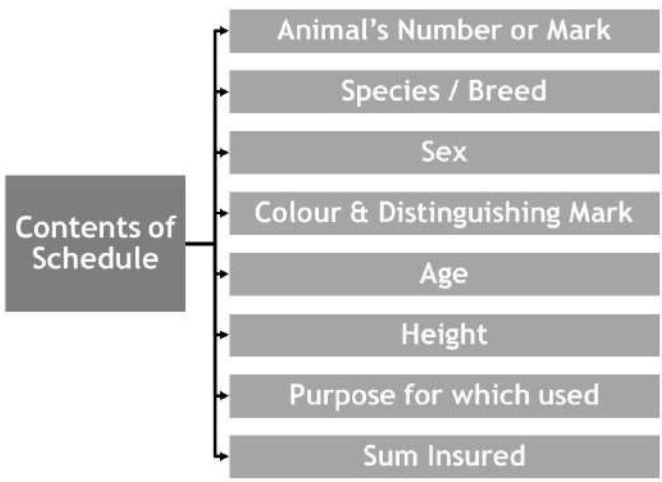
viii. If the death of the animal was due to the negligence of any person, the Company is entitled to sue in the name of the insured and recover compensation from the person. The company will indemnify the insured against costs incurred with its written consent.

ix. The company may cancel the policy and return the premium on pro-rata basis. The insured may cancel the policy and receive refund of premium as per short period scale (provided no claim has arisen during the current period of insurance)

x. Only differences as to the amount of loss shall be referred to arbitration. It is a condition precedent to any right of action or suit that the arbitration award shall be first obtained. The Company shall not be liable for any loss after the expiry of such loss unless the claim is the subject of pending action or arbitration.

j) Schedule

Diagram 2: Contents of schedule



k) Claim procedure for non-scheme animals

In the event of death of an animal the insurer should be immediately informed and the following requirements should be furnished:

i. Duly completed claim form

ii. Death Certificate obtained from qualified Veterinarian on Company's form.

iii. Post-mortem examination report if required by the Company

iv. Ear Tag applied to the animal should be surrendered. The Companies should follow the principle of "No Tag – No Claim". Generally claim should not be paid if tag is not submitted. However, in cases of genuine hardship, the higher Competent Authority may consider the claim if the identity of animal is established.

v. The value of the animal should be established properly keeping in view age, etc.

l) Claim procedure for scheme animals

Intimation of loss / death of animal should be given to the Company or Financing Bank immediately, within 7 days. Claimant has to furnish the following requirements within 30 days.

i. Duly completed and signed claim form along with ear tag.

ii. Certification of death from Veterinary Surgeon or a Certificate jointly by any two of the following; subject to their declaration that they have seen the carcass and Ear Tag intact in the ear mentioning number thereof:

- ✓ Sarpanch of the Village
- ✓ President or any other Officer of Co-op. Credit Society.
- ✓ Official of the Milk Collection Centre
- ✓ Supervisor / Inspector / Officer of any Banking or Credit Institution (other than the financial bank)
- ✓ DRDA or its authorized nominee.
- ✓ Secretary and Vice President of Panchayat
- ✓ Village Revenue Officer / Village Accountant.
- ✓ Headmaster of a primary school.

iii. Post Mortem report, if conducted.

m) Claim procedure for PTD claim

i. A certificate from the qualified Veterinarian to be obtained

ii. The animal should be inspected by Company's vet officer also.

iii. Complete chart of treatment, medicine used, receipt etc. should be collected (companies may engage an independent qualified Veterinarian or another investigator in special circumstances)

iv. Admissibility of claim to be considered after two months of obtaining Vet Doctor / Company Doctor's Report. The Company's Veterinarian should examine the animal and confirm PTD, before settlement of the claim.

v. The indemnity is limited to 75% of Sum Insured.

(**Note**: Under cattle claims, no salvage is deducted)

n) New schemes

The companies are allowed to formulate new innovative schemes for cattle, to meet the demands of the market.

Such schemes should not violate the provisions of IRDA, require clearance from the authority.

2. Sheep and goat insurance

Sheep produce two different kinds of crops each year viz. wool and lambs. With a view to improving the productivity of indigenous sheep, cross breeding with exotic fine wool and mutton dual purpose type of breeds has been initiated.

a) Initiatives by various bodies

i. The Central Sheep and Wool Research Institute in Rajasthan is doing commendable work in breed improvement of sheep and disease prevention.

ii. The Andhra-Pradesh Agricultural University Live Stock Research Station (Chittor) is doing research in developing sheep breed for mutton.

iii. Sheep production programmes have been approved under IRDP projects. Goat known as a poor man's cow, produces an estimated 3% of the total milk production in the country, besides providing meat.

iv. At the National Dairy Research Institute in Karnal work is in progress for development of dairy goat.

b) Insurance policy

i. Operative clause

This provides indemnity (sum insured or market value whichever is less) against death of sheep and goats due to

- ✓ Accident (including fire, lightning, flood, cyclone, famine, strike, riot and civil commotion) or
- ✓ Disease
- ✓ Occurring or contracted during the period of insurance.

ii. Exclusions

The exclusions are more or less the same as under cattle insurance policy. These relate to willful neglect, intentional slaughter, theft, etc.

However, the following exclusion is specific to this policy:

- ✓ Death due to Enterotoxaemia, Sheep Pox, Reinderpest, Anthrax, Foot and Mouth disease, Haemorrhagic Septicamia, Blackquarter.

- ✓ These diseases are covered only if the animal is successfully inoculated and Veterinary certificate supplied to the company.

c) Conditions

These are the same as under cattle insurance policy. Though the Market Agreement is no longer prevalent, Goat and Sheep Insurance are done on the following premises.

i. The cover applies to all indigenous, cross breed and exotic sheep and goats in the age group of 6 months to 6 years (4 months to 7 years to scheme animals)

ii. The market value of sheep and goats varies from breed to breed, area to area and time to time. The veterinarian recommendation is a guide for acceptance of risk and settlement of claim. No salvage value is deducted from claims.

iii. The premium rates normally charged are :

- ✓ Indigenous animals 4% p.a.
- ✓ Cross breed animals 5% p.a.
- ✓ Exotic animals 6% p.a.

Animals should be identified by metal ear tagging and/or tattooing method. Natural marks should be noted in the proposal and veterinary certificate.

iv. Group discount is available depending upon the number of animals covered (minimum 101 to 500 animals).

v. There is a special provision. Claims arising outside the geographical area in situations like drought, epidemics and natural calamities necessitating movement of insured animals are payable. This relaxation can be extended to movements of sheep and goat from lower to higher attitude as per weather conditions in the area. Further, migration within 80 km due to any reason is covered without extra premium.

The claim procedure is the same as under cattle policies.

3. Poultry Insurance

Definition

Poultry means domesticated species of birds, reared for eggs, meat or feathers and includes chicken, ducks, geese, turkey, guinea fowls etc.

a) Poultry development was pioneered towards the end of the 19^{th} Century by Christian Missionaries who imported exotic poultry breeds for their own farms and to make cocks make available to their neighbouring farms to improve their indigenous stock.

b) Significant development in poultry farming was the establishment of Poultry Research Division in 1938 and the Pathology and Bacteriology Division in 1942 at the Indian Veterinary Research Institute. The latter developed effective vaccine against the Ranikhet disease which was a major obstacle to successful poultry farming.

c) In the 1940s, a number of model poultry farms were established by different State Governments and from the sixties onward poultry farming was accepted as a source of livelihood and as a commercial enterprise.

d) Poultry farming is done by the big farmers on a large scale on a commercial basis with the use of modern management techniques. Hatcheries set up by them include farm houses, hatchery building, stores, staff quarters etc.

e) At the other end, small farmers supplement their income through production of eggs. These small farmers far outnumber the big producers, but they face problems of input supplies, veterinary aid, marketing services etc.

f) Thus, factors like availability of dependable input supplies, adequate health coverage, through vaccination measures and good sanitation, efficient marketing and overall management expertise are important for underwriting poultry insurance.

g) A market agreement for layers, broilers and hatchery birds was introduced in 1984 and revised from 1.10.1997. However, today no market agreement exists and each Company has its own policy of insuring poultry.

Definition

1. 'Poultry' for the purpose of insurance refers to (a) layers (b) broilers and (c) parent stock (hatchery) which are exotic and cross bred.
2. Exotic birds mean those whose parents are of foreign breed.

The agreement prescribed the minimum number of birds to be insured as follows which is even followed today:

Bank Finance (all types of birds)	IRDP	100
	Non IRDP	500
General		
Broilers		100 per batch
Layers		500 per batch
Hatchery		2,000 per batch

Acceptable Age limits are prescribed,

Example

Broilers 1 day to 8 weeks
Layers 1 day to 20 weeks
Hatchery birds (parent stock) 1 day to 72 weeks etc.

h) Premium

Premium rates vary according to:

i. Broilers
ii. Layers
iii. Parent stock and
iv. Irdp scheme or non-irdp scheme.

i) Sum insured

The agreement provides for a valuation charts for layers and broilers and also for the method of calculation of the value. However, for parent stock birds, the valuation chart has to be finalised in consultation with the Hatchery. The value varies from week to week and has to be pre decided.

(**Note**: The premium will be charged on the peak value of the birds in each category)

j) Discounts

i. No claim discount

No Claim after completion of 1 year	15% discount on premium
No Claim after completion of 2 year	20% discount on premium
No Claim after completion of 3 year	25% discount on premium

ii. Good Features discount

This discount not exceeding 5% may be allowed if the farm is having any five good features listed below:

- ✓ Farms having Resident / own Veterinary officer or Farms managed by Veterinary Doctors
- ✓ Farms with layer flock size of 10,000 batches and above. Farms with broiler flock size of 5000 batches and above
- ✓ Farms having good dead bird disposal system i.e. farms with incinerator
- ✓ Farms with standard layout such as good distance between sheds, fencing, wind breaker trees etc.
- ✓ Farms with sophisticated equipment i.e. farms with automatic feeders, waterers etc.
- ✓ Farms with mortality of less than 5% in previous batch.
- ✓ Presence of thermo regulators to control temperature and humidity.

(**Note**: The above good features should be certified by a Company's Representative.)

k) Insurance coverage

The policy provides indemnity against death of birds due to:

- ✓ Accident (including fire, lightning, flood, cyclone / storm / tempest / earthquake, strike, Riot, act of terrorism) or
- ✓ Disease contracted or occurring during the period of insurance

l) Exclusions

i. Malicious / willful injury, neglect

ii. Transit by any mode of transport

iii. Improper management (including over-crowding) i.e. when the farm is not run on scientific poultry management guidelines and standards laid down by Poultry Corporations / Animal Husbandry Department in regard to housekeeping watering, feeding, vaccination, deworming, debeaking, lighting / heating, culling, etc.

iv. Loss / death due to natural mortality, non-specified or unknown diseases or reasons.

v. Undergrowth, cannibalism, action of predators like preying birds and carnivorous animal.

vi. Theft and clandestine sale of birds

vii. Intentional slaughter of the birds except in cases where destruction is necessary to terminate incurable suffering on humane consideration and to protect remaining healthy flock to reduce additional losses on the basis of certificate issued by qualified vet surgeon or in cases where destruction is resorted to by order of lawfully constituted authority, under intimation to Insurance Company.

viii. Consequential loss however caused

ix. Permanent and partial disablement of any nature

x. Loss of production i.e. the failure due to any reasons whatsoever to lay required number of eggs or to attain proper weight at a particular age in Broilers.

- ✓ Marek's disease, Ranikhet disease, fowl Pox and infectious Bronchitis. These diseases are covered if the birds are successfully inoculated against these diseases and the necessary veterinary certificate is supplied to the company. Coccidlosis and other diseases are covered only if preventive and curative measures are taken from time to time.

- ✓ Malnutrition / shortage of water, death due to starvation because of non-supply of food to birds or similar reasons of whatsoever nature.
- ✓ Undergrowth
- ✓ Cannibalism
- ✓ Loss due to huddling and / or piling of birds
- ✓ Avian Leucosis Complex (A.L.C)

m) Underwriting

i. In addition to the proposal form a veterinary certificate is necessary. In case of layer farms having more than 5000 birds inspection of the farm is done by the Company's own vet officer or panel Doctor.

ii. All birds in the farm should be insured

iii. The minimum number of birds prescribed should be maintained and all the birds are covered on flock basis and hence no identification is necessary.

iv. Farms should have veterinary facility of their own or on consultancy basis.

v. Proper food, water and light should be provided for the birds.

vi. The farms should not resort to replacement of birds in the affected sheds i.e. after claim is reported due to disease / any other reason.

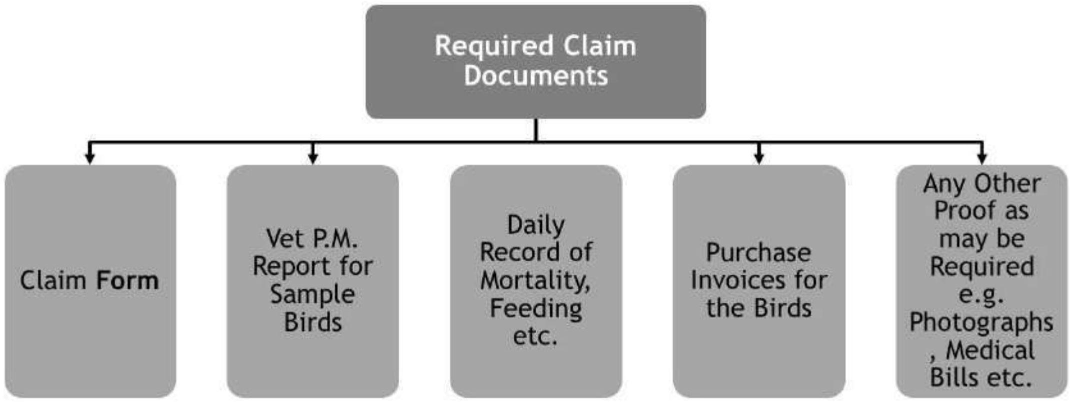
vii. The proposer must keep all the essential records such as daily stock register, mortality record, incidence of diseases, vaccination particulars etc.

n) Claims

Claims are admissible only if the mortality due to insured peril in the flock exceeds the 'excess' limit prescribed. For example, for broilers 5% of the population in each batch is the 'excess' limit.

Daily mortality details should be submitted on weekly basis, failing which reports will be treated as 'nil' for that week. In the case of alarming death / outbreak of epidemic nature notice with 12 hours should be given and all birds segregated and produced for inspection. Also, the insured should arrange emergency sale of live birds in the presence company's representative. This is for the purpose of averting or minimising the loss.

Diagram 3: Claim documents



4. Duck insurance

Ducks in the age group – 6 months to 2 years – can be covered provided the farm has 100 or more birds. All the birds in the farm have to be covered. Leg band identification is required.

The indemnity is limited to 75% of the value of the bird at the time of death as per the table of values for different ages of birds, certified by the veterinarian.

Cover is against death due to accident or disease and the exclusions are more or less, similar to those in the 'Poultry' Policy.

5. Aquaculture (shrimp/prawn) insurance

A market agreement was introduced with effect from 1.1.1999.

The insurance scheme under the agreement was applicable to licensed farms in accordance with the Government notification growing Brackish Water shrimp/Fresh water prawns by adopting extensive/modified extensive/semi intensive system only.

In the absence of any market agreement presently, individual Companies decide on this class of insurance as per their underwriting policy.

a) Coverage

The insurance covers only total loss or destruction of shrimp, prawns and is available as under:

Section I: Basic cover

It provides cover against only Total Loss of the Shrimp / Prawns due to the following:

- ✓ Summer Kill
- ✓ Pollution (from external source only)
- ✓ Poisoning
- ✓ Riot and Strike
- ✓ Malicious acts of Third Parties
- ✓ Earthquake
- ✓ Explosion / Implosion
- ✓ Storm, Tempest, Cyclone, Typhoon, Hurricane, Tornado, Flood, Inundation, Volcanic eruption and / or other convulsions of nature.
- ✓ Aircraft and other aerial devices or articles dropped therefrom, impact with any road vehicle, horses and cattle.
- ✓ Terrorism

Section II: Comprehensive cover

Covering all perils as listed in basic policy and death due to disease excepting diseases caused by bad management and / or which are due to nutritional deficiencies.

Normal Premium rate for Section I is 3% for Cyclone prone areas and 2% for other areas. Premium rate for Section II is 4 % in addition to the rate for Section I

b) Exclusions

The company shall not be liable in respect of loss / death of subject matter due to or arising from or through:

i. Malicious or wilful injury, poisoning, negligence, error or omission by the insured or his family members or employees.

ii. Improper and incompetent management and rough handling

iii. Partial loss of any kind

iv. Infidelity of any person, burglary, poaching and theft.

v. Natural mortality of the subject matter

vi. Undergrowth and cannibalism.

vii. Predators, competitors, weed fish and dangerous insects

viii. Physical alteration / change of chemical status, pH factor and salinity of soil and water

ix. Asphyxia

x. Clandestine sale or missing of Shrimp / Prawns

xi. Loss of production and loss of profit

xii. Consequential loss of any nature

xiii. Transit by any means

xiv. Use of wrong / excessive chemicals

xv. War etc and nuclear perils

xvi. Diseases due to improper management and/or nutritional deficiencies.

xvii. Losses due to or resulting from Plankton Blooms (unless associated with natural climatic reasons)

xviii. Polyculture

Any destruction in compliance with requirements of statute or any order of government / municipal or other authority except where Company has expressly agreed.

Flood and inundation due to the action of normal tides.

c) Period of cover and sum insured

Policy period is four and half months from the date of stocking of the post larve i.e. PL-15 to 20. No cover should be granted at a later date after stocking.

Sum insured is based on the input cost per kg of the shrimp / prawns produced as declared by the proposer. The companies have to exercise utmost care and use their underwriting judgment in accepting this figure. The companies are required to prepare panel of aquaculture experts and use their services in underwriting and claims management.

The market agreement provides a formula for fixing the sum insured. The valuation table is also to be used in assessment of loss in different fortnights.

Valuation table

Culture Period	Value of input in % of S.I.
1st fortnight	15
2nd fortnight	19
3rd fortnight	24
4th fortnight	30
5th fortnight	40
6th fortnight	52
7th fortnight	67
8th fortnight	83
9th fortnight	100

d) Warranties

i. The Shrimp/Prawn culture ponds should be prepared in accordance with prescribed, recommended and established practices

ii. The Prawn/Shrimp seeds of PL 15 to 20 should be healthy and of good quality and selected in accordance with established and prescribed norms and tests and (purchased) from well – known hatcheries / sources.

iii. The feed should be of high quality, procured from reputed firms.

iv. The stocking density of Shrimp/Prawns should not be more than 8 per Sq. m in case of P. Mondon and 10 per sq. m in case of extensive / modified Extensive and 15 to 20 pcs. Sq. m in case of semi intensive.

v. A holiday period as recommended by MPEDA or such other Government agency has to be observed by the farmers before releasing fresh seeds and during the period, proper pond treatment has to be ensured by the proposer which shall be verified by the underwriting office.

vi. If there is any suspicion of outbreak of any disease or catastrophic loss due to insured perils, then the farmer/insured should resort to premature harvest based on expert opinion and in consultation with the Company.

vii. In all the aforesaid matters concerning farming practices, the norms, stipulations and guidelines recommended by competent Government authority, Fisheries Department officials, Research Institutes, Fisheries College etc. should be complied with.

e) License

If there is any Government legislation in force in the State / Union Territory in which the farm is situated requiring a license to set up and conduct Prawn / Shrimp culture operations in the area, the farm should obtain such license.

f) Underwriting considerations

i. The insured shall at all times exercise all reasonable care and diligence in the selection of employees and shall cause Shrimp / Prawns insured to have sufficient and proper feeding.

ii. The water level of tanks, lakes and ponds should be maintained constantly at a level which is safe for Prawn Cultivation. The water movement must be regulated by suitable inlets, outlets and sluices.

iii. The project area should have strong and sufficient bunds at all times and is supervised by adequate watch and ward staff under the supervision of a qualified technical person. There should be screeming or shutting the escape routes such as gaps in the embankment

iv. The insured shall not introduce or permit to be introducing any diseased or infected shrimp / prawn amongst the insured stock. The insured shall also cause dead Shrimp / Prawns or Prawns attacked with disease to be completely separated from the remaining stock immediately upon the discovery of the attack and shall take all necessary and proper precautions to protect the healthy stock from disease stock.

v. Immediate steps to eradicate diseases, epidemics and parasitic infestation.

vi. Proper records are maintained on regular basis viz. stock position, Biomass, feeding, occurrence of disease and preventive curative measures taken, inputs and expenditures etc. Fortnightly declaration in the prescribed format to be submitted to the Company.

vii. All the tanks / ponds of the insured should be covered by insurance without any selection. Further all the ponds should be identified properly and noted in the proposal form.

viii. Depending on the period of culture the valuation table should be suitably drafted and incorporated in Policy

ix. While arriving at production cost and peak value due provision is made for deduction for natural mortality.

x. Companies should explore the possibility of pooling (Co-insurance) of technical, administrative resources and premium to have better spread.

g) Claims

The insured shall, upon the occurrence of any event giving rise to or likely to give rise to a claim under this policy, give immediate notice within 24 hours to the Company, and shall within fourteen (14) days thereafter furnish to the company fully completed claim form, death certificate with details certified by an official of fisheries / MPEDA (Technical officer of Corporate Client in case of Satellite farming) or any marine Biologist or a graduate qualified in fishery science, Meteorological Report or any supporting document (if claim is due to flood or cyclone, or summer kill) and other reports as required by the Company.

All dead Shrimp / Prawns should be produced without fail to the representative of the Company or any person authorized by the Company before disposal, if such a person is available.

The loss is assessed as per indemnity clauses on the basis of actual input cost incurred and also with reference to the valuation table. Salvage is taken into account. Each and every claim is subject to a deduction of 20% from the amount of claims payable (excess clause)

The salient features of insurance for other animals are outlined in the chart below:

	Animals	Sum insured	Indemnity	Rate
A.	Draught horses, ponies, mares, mules, yaks - used for cart work, farm work etc. (Age limit 2 to 8 years) (Note : Long term Master Policy for 3,4 or 5 years with 25% discount)	100% of market value	Death - 80% of S.I. P.T.D. - 75% "	4% 1% extra
B.	Camels male and female (Age limit 3 to 12 years)	Bank finance schemes Max - Rs. 3000 Individual cases - Market Value	Death - 80% of S.I. or Market value whichever is less P.T.D. - 75% of S.I.	4 % to 6% PTD. 1% extra

The agreement prescribed rules for identification, claims procedure etc. as in Cattle and Sheep and goat insurance.

Test Yourself 2

In the case of claim procedure for Scheme Animals, the intimation of loss/death of animal should be given to the Company or Financing Bank within:

I. 14 days
II. 10 days
III. 7 days
IV. 15 days

Summary

a) Rural insurances cover the risks of the rural folk.

b) Every general Insurer is expected to ensure that a specified percentage of the Gross premium Income comprises of premium generated in the rural or social sector.

c) Rural policies comprise the insurance of cattle, sheep and goat, work horses, poultry, other livestock, sub-animals, plantations, horticultural crops, etc.

d) Rural policies are under constant review and are modified from time to time.

e) In order to extend the benefit of planned development to the small cultivators and the underprivileged section of rural population, special programmers, particularly suited to these class of people, have been launched by the Government of India.

f) The Integrated Rural Development Program (IRDP) is a centrally sponsored scheme founded by the Central Government and the States on 50:50 basis.

g) Market agreements had been formulated by the G.I.C. for the insurance of cattle, poultry, sheep and goats, work horses, etc., camels and shrimp and prawns.

Answers to Test Yourself

Answer 1

The correct option is III.

Veterinary certificate to be submitted with the claim form is standardised under the agreement.

Answer 2

The correct option is III.

Intimation of loss / death of animal should be given to the Company or Financing Bank immediately, within 7 days.

Self-Examination Questions

Question 1

In case of scheme animals, the policy is issued as agreed value policy and claims are settled for:

I. 90% of sum insured
II. 75% of sum insured
III. 80% of sum insured
IV. 100% of sum insured

Question 2

In the case of Sheep and Goat insurance, the premium charged for indigenous animals is:

I. 3%
II. 4%
III. 5%
IV. 6%

Question 3

'Poultry' for the purpose of insurance refers to which of the following?

I. Exotic and Cross bred parent stock
II. Exotic birds only
III. Cross Bred birds only
IV. None of the above

Question 4

In case of layer farms having more than 5,000 birds, inspection of the farm is done by:

I. The Insurer
II. The Insured
III. The Company's own vet officer
IV. All of the above

Answers to Self-Examination Questions

Answer 1

The correct option is IV.

In case of scheme animals, the policy is issued as agreed value policy and claims are settled for 100% of sum insured.

Answer 2

The correct option is II.

Premium is charged at the rate of 4% in the case of indigenous animals.

Answer 3

The correct option is I.

'Poultry' for the purpose of insurance refers to (a) layers (b) broilers and (c) parent stock (hatchery) which are exotic and cross bred.

Answer 4

The correct option is III.

In case of layer farms having more than 5000 birds, inspection of the farm is done by the Company's own vet officer or panel Doctor.

CHAPTER 13

RURAL INSURANCE – II

Chapter Introduction

Insurance policies are available to cover other animals such as elephants, pigs, rabbits, Zoo and Circus animals.

It is important to note that coverage, rates of premium, underwriting practice etc., may vary among the companies. This chapter will give an understanding of the general approach adopted by the companies.

Learning Outcomes

A. Insurance of elephants, pigs, rabbits, zoo and circus animals
B. Sericulture (silk worm) insurance and honey bee insurance
C. Horticulture crops / plantations insurances
D. Insurances related to agriculture
E. Salt works insurance and pedal cycle insurance
F. Hut insurance, farmer's package insurance and tribal package insurance
G. Rural accident package policy and personal accident social security (pass)

Look at this Scenario

Vishwanath is a farmer involved in Horticulture activities in a village in Madhya Pradesh. He was unaware of any insurance for horticulture and agriculture. Last year, due to heavy rains, there was a huge damage to the crops and several farmers like Vishwanath suffered losses. Vishwanath had taken a loan for growing the crops in his farm. The loan was taken for seeds, fertilizers and other agricultural equipment.

Vishwanath is worried that if he is unable to repay the loan, the bank may seize his farm land. This would destroy his livelihood and the future of his family would be at jeopardy.

This tells us how important rural insurances are.

A. Insurance of elephants, pigs, rabbits, zoo and circus animals

Common features of the insurance schemes of animals are as follows:

a) Coverage is against accident or disease. The exclusions are generally the same as under cattle policy but there may be additional exclusions relevant to specific animal covered.

b) Sum insured is based on veterinarian certificate.

c) Appropriate identification marks on the animal are to be incorporated in the policy.

d) Claims procedure is generally the same as under cattle policy.

1. Insurance of elephants

a) In this type of insurance, elephants used for commercial/religious purposes in the age group 5 to 60 years can be insured.

b) Sum insured should exclude the value of tusk.

c) The rate is 4.5% for temple elephants and 5% for other animals.

d) In the event of claims 80% of market value is paid.

2. Insurance of pigs

Pigs (indigenous/cross bred, (exotic) in the age group of 6 months to 3 years. Sum insured varies according to age of the animal. The limit of liability for claim is 80% of sum insured. The rate is 5% on peak value during rearing stage.

3. Insurance of rabbits

Rabbits - All breeds in the age group of 1 day to 4 years. The sum is 100% of market value. The rate of premium is 7%. Claim payment at 70% of sum insured or market value whichever is less.

4. Insurance of Zoo and Circus animals and birds

The insurance can be done for Zoo and Circus animals and birds on all or none basis. Sum insured based, on valuation done by curator and health certificate by veterinary doctor. The coverage is as per cattle / poultry policy.

The rate of premium:

Zoo - 5.0% of Sum Insured

Circus - 7.5% of Sum Insured

B. Sericulture (silk worm) insurance and honey bee insurance

1. Sericulture (silk worm) insurance

a) The insurance scheme is applicable to the following breed of Silkworm fed on mulberry leaves only:

- ✓ Univoltine
- ✓ Bivoltine
- ✓ Multivoltine

b) Coverage

Indemnity is in respect of total loss or destruction of the cocoons, following the death of silkworm due to accident or disease during the period of insurance.

The policy may be extended at extra premium, to cover loss of cocoons due to accident during transit from the insured’s farm to the cocoon market.

c) Exclusions

Some of the important exclusions are:

i. Diseases contracted prior to or within 5 days from the date of commencement of risk.
ii. Loss due to natural mortalities and / or normal trade loss.
iii. Loss due to improper management and / or rough handling.
iv. Theft or clandestine sale.

d) Policy period and valuation

The crop period varies from 3 weeks to 5 weeks i.e. from the stage of plantation of eggs to the final stage i.e. harvesting of cocoons. Thus, the policy may be issued for 12 months or the crop period as is required.

e) Sum insured

The value of cocoons at each stage till the harvest period is to be certified by the Sericulture Department of the State Government. In view of the variation in the value of cocoons, the policy is not issued with fixed sum insured. The sum insured therefore, is equivalent to the cost of inputs only.

f) Claim settlement

A certificate from the Sericulture Department regarding the cause of loss and the value of cocoons at the time of loss is the basis for settlement of claim.

g) Important policy terms

i. Measures to be taken for prevention of disease and pest attacks.

ii. The eggs should be healthy.

iii. Cocoons should not be sold in any place other than the notified market.

iv. The insurance cover ceases once the cocoons leave the rearing premises.

v. A Technical Report-cum-Certificate of the Government Sericulture Department approving the method adopted by the Seri-culturist and identifying the areas where Silk worms are reared.

vi. Only disease free supply of layings for rearing, obtained from licensed seed suppliers or Government Sericulture Department are insurable.

2. Honey bee insurance

a) The insurance applies to hives and/or bee colony belonging to the cooperative society.

b) The cover is in respect of all accidental loss or damage to the hive and / or bee colony.

c) Theft risk can be covered on payment of additional premium.

d) The important exclusions are:

i. Neglect or improper management and / or rough handling

ii. Natural mortality

iii. Any destruction as required by any order of Government / municipal authority.

Value for (a) cost of hive and (b) cost of bee colony will be taken as insured value. An agreed valuation based on the figures provided by the State Khadi and Village Board or Khadi and Village Industries Commision is accepted.

Example

An example of valuation is as follows:

10 frames		7 frames
I S I hive		Janta
Teak		Packing wood
Hive	Rs.140	Rs. 20
Bee Colony	Rs. 50	Rs. 50
Total Insured Value	Rs.190	Rs. 70

(The cost of hive varies according to number of frames and type of wood)

- ✓ The respective boxes should be identified with the company code and number.
- ✓ Assessment of loss is based on a certificate given by an authorised officer of the concerned Government Department.
- ✓ The liability under the policy is 80% of the assessed amount, the insured bearing the balance 20%.

C. Horticulture crops / plantations insurances

1. **Horticultural crops** include the following:

    a) Grape
    b) Citrus (Orange, Lime, Sweet Lime)
    c) Chikoo
    d) Banana
    e) Apple

2. **Plantation** include the following:

    a) Rubber
    b) Eucalyptus
    c) Poplar and Kadam
    d) Teak wood
    e) Tea
    f) Oil Palm

3. **Sugarcane**

4. **Flowering plants (floriculture)** include the following:

    a) Orchids
    b) Roses

5. **Betelvine**

6. **Coverage**

The policy provides indemnity in respect of loss of or damage to the insured tree / fruits (whichever is applicable depending on the crop insured) by:

a) Fire (including forest fire and bush fire)
b) Lightning
c) Storm, Flood and Inundation
d) Riot, Strike and Terrorism

7. **Exclusions**

Some of the important exclusions are:

a) Loss by theft
b) Earthquake
c) Loss / damage due to insects , pests and diseases (unless specially covered)

d) Non-compliance with package of prescribed agricultural practices for the insured crop.
e) Climatic variations, pollution, non-bearing of fruits.
f) Damage by birds, animals
g) Damage to plant supports, irrigation system, agricultural equipment etc.

8. Period of insurance

This period is for the crop duration (from planting to harvest) or one year whichever is shorter.

9. Sum insured

The Sum Insured is based on the input costs i.e. cost of cultivation.

Example

Some examples of input costs are:

a) Ploughing, filling, etc.
b) Cost of plant / seedlings
c) Labour cost of planting
d) Cost of manures
e) Cost of pesticides etc.
f) Cost of harvesting
g) Machine power, Bullock power

10. Premium

General indications of premium rates are:

Horticultural Crops	5.00 % of Sum insured
Plantations	1.25 % of Sum insured
Sugarcane	1.25 % of Sum insured
Flowering plants	5.00 % of Sum insured
Betelvine	10.00 % of Sum insured

11. Claims

Claim is not payable if the amount of loss assessed does not exceed:

- ✓ 10% of Sum insured per acre or
- ✓ Rs. 1000 per affected acre

whichever is higher (franchise

The liability under the policy is 80% of the assessed loss and 20% is to be borne by the insured.

Test Yourself 1

Which of the following is not a type of horticultural crop?

I. Banana
II. Grapes
III. Mangoes
IV. Oranges

D. Insurances related to agriculture

1. Agricultural pump set policy

The insurance is granted on Centrifugal Pump sets (electrical and diesel) up to 25 H.R (capacity of approved makes) used for agricultural purposes only.

a) **Coverage**

The cover is in respect of unforeseen and sudden physical damage to pump sets (including starters) by:

i. Fire, lightning
ii. Riot, strike, malicious damage, terrorism
iii. Mechanical, electrical breakdown
iv. Burglary (by violent forcible entry and provided the pump set is kept in a locked enclosure)

Flood risk can be granted on a selective basis at extra premium.

b) **Exclusions**

Some important exclusions are:

i. Cost of dismantling, to and from transport to workshop and cost of erection.
ii. Faults existing at the time of commencement of policy and known to the insured
iii. Damage for which the manufacturer or supplier is responsible.

c) The sum insured should represent 100% of new replacement value.

d) The rates of premium vary according to type of set i.e. electric or diesel/oil and Horse Power.

e) There is excess applicable to machinery breakdown claims only. The amount of the excess varies according to type of set and Horse Power.

f) There are discounts for group policies, long term policies and for ‘no claim’.

2. Failed Well Insurance

The insurance applies to:

- ✓ Dug wells,
- ✓ Bore Wells or
- ✓ Dug-cum-Bore wells

These wells should be:

- ✓ Used for developing ground water and
- ✓ Financed by cooperative / commercial banks and
- ✓ Sponsored by National Bank for Agriculture and Rural Development (NABARD)

a) Coverage

If the well fails to yield specified quantity or water, the policy indemnifies the insured to the least of the following:

i. Cost of all civil construction less the cost of pumping equipment and its accessories, or
ii. The sum insured

b) The proposal form countersigned by the bank has to be accompanied by:

i. Site plan of place of land on which well is to be dug. (site selection has to be done by a qualified hydrologist / geophysicist)
ii. Permission of the local Municipal Authority.

c) A group policy may be issued to the bank covering a number of farmers provided the required details are supplied for each well.

d) Failure of well is determined with reference to prescribed parameters and certified by the District/Block Certifying Agency constituted by State Government.

3. Lift irrigation insurance

The lift irrigation system comprises:

- ✓ Intake well
- ✓ Delivery chambers
- ✓ Jack Well
- ✓ Pump House
- ✓ Water Storage Tank
- ✓ Pipelines Cables
- ✓ Switch Gears
- ✓ Starters
- ✓ Electric motors of capacity from 3 H.P. to 200 H.P

a) Coverage

The policy provides indemnity against unforeseen and sudden physical loss and/or damage by:

- ✓ Fire
- ✓ Riot, strike and malicious damage
- ✓ Storm, flood etc.
- ✓ Earthquake
- ✓ Landslide
- ✓ Theft
- ✓ Bursting of pipelines
- ✓ Mechanical and/or electrical breakdown

b) The insurance applies to insured property specified in the policy. The insured has to specify the property in the proposal form as follows:

Sr. No.	Items to be Insured	Description	Details of Construction	Sum Insured
1.	Intake Well Delivery Chamber Jack Well, Storage Tank, Pump House and Any other Bldg.			
2.	Pipelines and valves			
3.	Machinery (make, Year of manufacture H.P.) (details of each machine)	Motor No.		
4.	Switch gears, starters, cables			
5.	Any other item.			

c) Exclusions

The important exclusions are:

i. Loss or damage resulting from overload experiments

ii. Gradually developing flaws, defects etc.

iii. Wear and tear from normal usage

iv. Loss or damage due to faults existing at the time of commencement of risk known to the insured but not disclosed to the Company.

v. Loss of or damage to belts, ropes chains, all operating media (e.g. lubricating oil etc.), packing material etc.

d) Excess

There is an excess of Rs. 1000/- on each and every claim. For machinery breakdown the excess is 1% of the value of the machinery or Rs. 1000/- whichever is higher.

e) Sum insured

The sum insured shall be equal to the cost of replacement of insured property by new property of the same kind and capacity.

On payment of a loss, the sum insured is reduced and must be reinstated to the original level on pro-rata premium from the day the affected item is put to work.

f) Rating

The rate of premium is .070% if all items of property are insured. If any item is deleted, a higher rate will apply. If only machinery is insured, machinery tariff rates will apply.

(**Note**: The policy may be modified to cover the sprinkler system/accessories like dippers, sprayers etc. at a higher premium.)

E. Salt works insurance and pedal cycle insurance

1. Salt works insurance

a) The cover under the policy applies to earthwork / mud work and salt stored on platforms against the risk of:

i. Storm, Cyclone, flood and allied perils
ii. Unseasonal rainfall (as declared by the Meteorological Department)

(**Note:** Salt brine i.e. salt in process of production cannot be covered under the policy)

b) The sum insured is the actual cost of construction and the indemnity is restricted to the cost of repair and/or reconstruction.

The sum insured for salt stored on platforms, is the actual cost of production excluding anticipated profits.

c) The policy is subject to excess of 30% of the Sum Insured on earthquake/mud work and salt stored on each platform affected by loss.

d) The rate of premium is:

i. 15% for earthquake/mud work and
ii. 30% for salt stored on platform.

2. Pedal cycle / cycle rickshaw insurance

a) Insurance applies to vehicles driven by manpower only.

b) The coverage under both policies is as follows:

i. Own damage

The policy covers loss or damage by:

- ✓ Accidental external means
- ✓ Fire, lightning or external explosions
- ✓ Theft, burglary
- ✓ Riot, strike, Malicious Act

The policy does not cover loss or damage by:

- ✓ Overloading or mechanical breakdown
- ✓ Earthquake, storm, flood etc.
- ✓ Theft of accessories unless the vehicle is stolen at the same time.

Accidental damage is subject to excess of:

- ✓ Rs. 15 in the case of pedal cycle insurance and
- ✓ Rs. 25 in the case of cycle rickshaw insurance

ii. Third party liability

Legal liability for bodily injury and property damage of third party, subject to limit of Rs. 10,000/- any one accident.

In the case of cycle rickshaw, cover is also provided for legal liability for death or injury of passengers – limit Rs. 1,000/- for 2 passengers (Rs. 500/- each) and damage to goods of passengers Rs. 500/-.

c) It is a condition of the policy that the vehicle shall be secured with proper padlock when left unattended or not in use.

3. Animal driven cart insurance

a) The cover is provided under three sections. These are:

Section 1

i. Loss or damage to cart or tonga by accidental external means, fire, lightning, storm, flood etc. burglary, theft, riot, strike, malicious act., terrorism and when in transit by rail, road or inland waterways.

ii. Death or permanent total disablement of the insured animal arising during and out of an accident to the cart/tonga.

iii. The animals used for driving/pulling are:

- ✓ Male buffaloes, bullocks, bulls
- ✓ Horse / Mule
- ✓ Donkey
- ✓ Camel

Section 2

Third party liability' up to Rs. 5,000 per accident and Rs. 10,000 all accidents in a year.

Section 3

Personal accident cover (as per Gramin Policy) to the driver, whether owner or otherwise.

b) Sum Insured should be 100% of the market value of the cart/tonga and animal to be declared separately.

c) The policy is subject to excess of Rs. 100 (cart) and Rs. 200 (tonga) for each claim. In case of damage to rubber tyres, the liability is limited to 50% and in case of total loss to 75%.

d) The premium rate is charged on the Sum Insured for cart/tonga and animal. (Note: The practice varies).

F. Hut insurance, farmer's package insurance, tribal package insurance

1. Hut insurance

a) This insurance was earlier under market agreement. Dwelling huts in rural areas constructed with financial aid from Banks / Cooperatives / Government institutions are covered against the risk of:

- ✓ Fire
- ✓ Earthquake
- ✓ Inundation storm
- ✓ Impact damage
- ✓ Riot
- ✓ Strike and
- ✓ Malicious damage

For a maximum sum insured of Rs. 6,000 (agreed value policy) comprising Rs. 5,000 for structure and Rs. 1,000 for contents.

b) Maximum 200 huts, situated in one contiguous are covered. Larger size is considered and rated separately. Huts have to be identified by description and number allotted.

c) The rate is Rs. 3/- per mile. Group discounts are available.

2. Hut insurance (group)

a) The group cover was given to State Governments only in respect of huts in rural/semi-rural areas of the state, provided all huts are covered.

b) The risks covered are:

- ✓ Fire
- ✓ Lightning
- ✓ Explosion
- ✓ Riot
- ✓ Strike
- ✓ Malicious damage
- ✓ Impact by rail / road vehicle or animals
- ✓ Storm
- ✓ Cyclone
- ✓ Flood and inundation
- ✓ Earthquake subsidence
- ✓ Landslide
- ✓ Rockslide and
- ✓ Terrorism

c) The sum insured should not be more than Rs. 5000/-. The rate of premium is Rs. 3/- per mille with provision for lower rates for number of huts ranging from 15000/- on a slab basis.

d) The total aggregate claim shall be limited to:

i. Rs. 2 crores per event
ii. Rs. 10 crores in any one year during the currency of the policy

e) The business is shared with the state government on 50% co-insurance basis.

f) Ordinary claims are processed by Claim Enquiry cum Settlement officers.

g) Major claims e.g. flood and fire are surveyed and assessed by a Task Force constituted by the insurer.

3. Farmers' package insurance

This policy provides cover as follows:

Property / Contingency	Risks	Sum Insured
a) Dwelling hut / house and contents	Fire, lightning, natural perils, impact damage, riot, strike, malicious damage	Rs. 5000/- (Dwelling) Rs. 1000/- (Contents)
b) Cattle (Indigenous)	Death (accident / disease) Permanent Total Disablement Breeding / Calving risk	2 cattle heads @Rs. 2000/- each

c) Agricultural Pumpset (up to 5 HP)	Fire, theft, machinery breakdown	100% of market value
d) Bullock Cart	Death / Permanent disability of animal due to accident Damage to cart (accident) Third party liability Personal Accident to cart driver	Rs. 2000/- (2 bullocks) Rs. 1000/- (Cart)
e) Gramin Personal Accident (Insured and Spouse)	Death / Permanent Total Disablement	Rs. 6000/- each

4. Tribal package insurance

The covers provided are:

Property / Contingency	Risks	Sum Insured
a) Huts / Dwelling / Cottage industry sheds	Fire, Lightning, Riot, Strike, Malicious Damage, Natural Perils, Aircraft Damage	Rs. 2,000/-
b) Contents	-do-	Rs. 1,000/-
c) Personal Accident	Death, Loss of limbs, Permanent Total / Partial Disablement,	Rs. 10,000/-
d) Hospitalization / Domiciliary Hospitalization	(Accidents and Major diseases) i. Renal diseases ii. Cerebral / vascular strokes iii. Coronary heart diseases / Coronary by-pass surgery iv. Kidney transplantation v. Cardiac ailment vi. Open heart surgery vii. Malignant tumour viii. T.B. ix. Encaphalities	Maximum Rs.4,000 /- per person / per period of cover.

Test Yourself 2

Which of the following is not a condition for claiming under a failed well insurance policy?

I. The wells should be used for developing ground water
II. The wells should be sponsored by Co-operative banks/Commercial banks
III. The wells should be financed by Commercial banks/Co-operative
IV. None of the above

G. Rural accident package policy and personal accident social security (PASS)

1. Rural accident package policy

a) Basic Cover Or	Death by accident
b) Standard Cover Or	As per Standard JPA policy
c) Comprehensive Cover	Death and Permanent Disablement (Total and Partial) as per Personal Accident Policy

Additional cover is available at extra premium, for hospitalisation expenses arising out of accidents only, subject to a limit of 10% of the Capital Sum Insured.

2. Personal accident social security (PASS)

The Central government had introduced in the year 1985, the Personal Accident Social Security Scheme for the benefit of poor families.

Definition

‘Poor families’ are defined in the policy and include landless labour households, families of traditional craftsmen etc. whose total annual income does not exceed Rs. 7200/-.

Salient features of the Scheme

a) The scheme provides for payment of Rs. 3000/- in the event of accidental death of any person in the age group of 18 to 60 who is an earning member of poor family.

(**Note**: Accidental deaths include such deaths due to snake bite, drowning, food poisoning, lightning, fall from a tree, and killing by armed criminals or wild animals. The cases specified are illustrative and not exhaustive)

b) Beneficiaries:

i. Surviving spouse or

ii. If there is no surviving spouse, the payment be made to all dependent children jointly who will share equally. Where the payment is to be made to minor children, the same may be made by way of Post Office deposit or

iii. If there are no surviving children, the payment can be made to dependent surviving parents.

c) When compensation is not payable

i. Death arising or resulting from breach of any law with criminal intent.

ii. When compensation higher than Rs. 3,000/- is receivable by virtue of any other law / statute e.g. Motor Vehicles Act, Solatium Fund, Employees State Insurance Scheme, Workmen's Compensation Act, etc.

(**Note**: If compensation / relief available under (b) is less than Rs. 3,000/- compensation under the Scheme will be limited to the amount which would bring the total compensation/relief from all sources to Rs. 3,000/-)

d) Role of G.I.C. and subsidiaries

The G.I.C. and its Subsidiaries will notify the designated insurance companies and their concerned offices for each of the districts and also their representatives for all District and State Level Consultative Committees. GIC will have the overall responsibility for the administration of the Scheme.

e) Monitoring and review

The operation of the Scheme will be monitored closely and reviewed annually by GIC. Annual Appraisal Reports of the Scheme would be prepared by the GIC and submitted to the Government of India. Modification would be introduced as may be required in the light of the annual review.

3. Hut insurance scheme

Hut Insurance Scheme was introduced by the Central Government with effect from 1st May, 1988.

The Scheme provided for payment compensation to very poor families in rural areas when their huts and/or belongings are destroyed by fire (Rs. 1,000/- for huts and Rs. 500/- for belongings)

Definition

'Very Poor Families' are defined in the scheme and include landless labourers, small farmers etc., whose annual family income does not exceed Rs. 4,800/-.

Some of the schemes like pass are no longer in operation, but are included herein to indicate, how in different ways insurance can be assist in providing benefits/security to the weaker sections of the society.

Test Yourself 3

Under the PASS scheme, 'Poor families' are defined in the policy and include landless labour households, families of traditional craftsmen etc. whose total annual income does not exceed:

I. Rs 6,200
II. Rs 5,200
III. Rs 7,200
IV. Rs 8,200

Summary

a) There are certain common features of insurance schemes of animals. There relate to coverage, sum insured and claims procedure.

b) In case of elephants insurance, elephants used for commercial/religious purposes in the age group 5 to 60 years can be insured.

c) Pigs (indigenous/cross bred, (exotic) in the age group of 6 months to 3 years can be insured in Pigs insurance.

d) In case of insurance of Rabbits, all breeds in the age group of 1 day to 4 years can be insured.

e) Indemnity in case of silkworm insurance is in respect of total loss or destruction of the cocoons, following the death of silkworm due to accident or disease during the period of insurance.

f) Honey Bee insurance applies to hives and/or bee colony belonging to the cooperative society. The cover is in respect of all accidental loss or damage to the hive and / or bee colony.

g) An Agricultural Pump Set insurance is granted on Centrifugal Pump sets (electrical and diesel) used for agricultural purposes only.

h) A Failed Well Insurance policy applies to Dug wells, Bore Wells or Dug-cum Bore wells.

i) A Lift Irrigation Insurance provides indemnity against unforeseen and sudden physical loss due to specified reasons.

j) A Salt Works Insurance policy applies to earthwork/mud work and salt stored on platforms against the risk of:

   i. Storm, cyclone, flood and allied perils
   ii. Unseasonal rainfall (as declared by the Meteorological Department)

k) A pedal cycle/cycle rickshaw insurance cover applies to vehicles driven by manpower only.

l) An animal driven cart insurance provides for loss or damage to cart or tonga or loss to the insured animal

m) A Hut Insurance policy provides cover for loss to huts.

n) A farmers package insurance, tribal package insurance, rural accident package policy and personal accident social security provide covers specified in these policies.

Answers to Test Yourself

Answer 1

The correct option is III.

Mango is not a type of horticultural crop.

Answer 2

The correct option is II.

The wells should be sponsored by NABARD.

Answer 3

The correct option is III.

Under the PASS scheme, 'Poor families' are defined in the policy and include landless labour households, families of traditional craftsmen etc. whose total annual income does not exceed Rs 7,200.

Self-Examination Questions

Question 1

The PASS scheme provides for payment of Rs. 3,000 in the event of accidental death of any person in the age group of:

I. 20 years to 55 years who is an earning member of poor family
II. 18 years to 60 years who is an earning member of poor family
III. 18 years to 55 years who is an earning member of poor family
IV. 20 years to 60 years who is an earning member of poor family

Question 2

The Hut Insurance Scheme provided for payment compensation to very poor families in rural areas when their huts and/or belongings are destroyed by fire. The compensation is:

I. Rs.1000 for huts and Rs. 500 for belongings
II. Rs.500 for huts and Rs. 1000 for belongings
III. Rs.5000 for huts and Rs. 1000 for belongings
IV. Rs.1000 for huts and Rs. 5000 for belongings

Question 3

Which of the following is the cover provided in the case of tribal package insurance if there is a death, loss of limbs, permanent total/partial disablement?

I. Rs. 2,000
II. Rs. 1,000
III. Rs. 4,000
IV. Rs. 10,000

Question 4

Under the Animal Driven Cart Insurance, in case of damage to rubber tyres, the liability is limited to which of the following?

I. 60% and in case of total loss to 75%
II. 50% and in case of total loss to 80%
III. 75% and in case of total loss to 90%
IV. 50% and in case of total loss to 75%

Answers to Self-Examination Questions

Answer 1

The correct option is II.

The PASS scheme provides for payment of Rs. 3,000 in the event of accidental death of any person in the age group of 18 years to 60 years who is an earning member of poor family.

Answer 2

The correct option is I.

The Scheme provided for payment compensation to very poor families in rural areas when their huts and/or belongings are destroyed by fire (Rs. 1000/- for huts and Rs. 500/- for belongings)

Answer 3

The correct option is IV.

The cover provided in the case of tribal package insurance if there is a death, loss of limbs, permanent total/partial disablement is Rs 10,000.

Answer 4

The correct option is IV.
In case of damage to rubber tyres, the liability is limited to 50% and in case of total loss to 75%.

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SUGGESTED READING: AVAILABLE AT AMAZON

- IC 74 - Liability Insurance : MCQ's 100 - Kindle Edition by Insurance Literature

- MCQ Guide Book for Liability Insurance by Dr. Rakesh Agarwal, The Insurance Times, Ram Gopal Agarwala

https://insurancegk.com

FIRST LARGEST QUESTION BANK EXCLUSIVE ON INSURANCE