

The schedule contains name and address of the proposer, brief description of the property insured, sum insured, period of insurance, perils covered, rates of premium and the serial number of the cover note.

Discuss the principle of rate fixation in fire insurance.

NU BBA Professional 2016

3.43 Calculating the Amount of Loss in Fire Insurance

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In case of fire insurance policy the principle of indemnity is relevant. That is why whatever the loss may be an insurance company is sure to pay off the loss or legally obligated to indemnify the loss of the insured.

If a property holder has taken insurance from different company for the same subject matter then he will receive proportionate indemnification from all insurers. In case of the fire insurance the subject matter can be more than one at a time.

If we talk about a warehouse where the amount of inventory varies, it is very difficult to determine the premium for those cases and in case of loss of the property the particular amount of loss cannot be ascertained.

In case of a specific policy it is very easy to compute the premium and loss amount, because it doesn't matter what is the amount of loss, the indemnification will be made based on the policy value.

If the policy is valued policy then the similar method is used as specific policy, but if it is an unvalued policy then a different method is usually applied. In case of general policy the traditional method of averaging is used.

That's why own judgment is applied considering nature, number, amount, value, number of insured, policy types many other facets to be considered in calculating the loss in fire insurance. So, the valuation of insurance claim is very much situational.

Example

Shafat Enterprise insured a house worth Tk. 15,00,000 for Tk. 10,00,000 under an Average Policy with Sonar Bangla Insurance Co. The house was destroyed by fire and the actual loss on accident Tk. 5,00,000. How much can Shafat Enterprise to recover from the insurance company.

Solution

$$\begin{aligned} \text{Insurance Claim} &= \frac{\text{Insured value} \times \text{Loss}}{\text{Actual value of subject matter on the date of accident}} \\ &= \frac{1000000 \times 500000}{1500000} = \text{Tk. } 3,33,333.33. \end{aligned}$$

Shafat Enterprise will receive Tk. 3,33,333.33 from Sonar Bangla Insurance Co.

Comment : The policy is under insured. So, the insurance company i.e. insurer will pay Tk. 3,33,333.333 and the balance of loss will be borne by insured Shafat Enterprise Tk. (1,500,000 - 3,33,333.33) = 1,66,666.67

Example 14

Mr. Russel insured a Warehouse worth Tk. 25,00,000 for Tk. 30,00,000 under an average policy. The warehouse was destroyed by fire and the actual loss ascertained Tk. 16,00,000. How much can Mr. Russel recover from the insurance company.

Solution

$$\begin{aligned} \text{Insurance Claim} &= \frac{\text{Insured value} \times \text{Loss}}{\text{Actual value of subject matter on the date of accident}} \\ &= \frac{3000000 \times 1600000}{2500000} = \text{Tk. } 19,00,000. \end{aligned}$$

Comment : The policy is over insured. So, the insurance company will pay up to loss Tk. 16,00,000. No payment will be made over loss, because insurance contract is a compensating contract.

Some Mathematical Problems & their Solutions

কতিপয় গাণিতিক সমস্যা ও সমাধান

Problem 1

BBA (Professional) 2008

A house worth Tk. 100,000 was insured for Tk. 60,000 under an average policy. The house was destroyed by fire and actual loss was ascertained Tk. 20,000. How much can the insured recover from the insurer?