

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

অগ্নি বিমায় ক্ষতির পরিমাণ গণনাকরণ

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?



### 3.33 Meaning of Fire Insurance

অগ্নি বিমা

Fire insurance was started after marine insurance. Marine insurance was useful only to persons engaged in some kind of trade. The fire havoc can be experienced by persons of all walks of life. The Great Fire of London in 1666 destroyed 13,000 houses in four days. This 'Great Fire' gave birth to Fire Insurance. Fire insurance is a contract to indemnify the loss suffered by the insured. This contract does not help in controlling or preventing fire but it is a promise to compensate the loss.

A fire insurance is an agreement between two parties, i.e., insurer and insured, whereby insurer undertakes to indemnify the loss suffered by the insured in consideration for his (insured) paying of certain sum called 'Premium'.

A fire insurance contract may be defined as 'an agreement' whereby one party in return for a consideration undertakes to indemnify the other party against financial loss which the latter may sustain by reason of certain subject-matter being damaged or destroyed by fire or other defined perils up to an agreed amount.

The term 'fire' must satisfy two conditions:-

- (a) There must be actual fire or ignition;
- (b) The fire should be accidental.

The property must be damaged or burnt by fire. If the property is damaged by heat or smoke without ignition it will not be covered under the word 'fire'.

### 3.34 Definition of Fire Insurance

অগ্নি বিমার সংজ্ঞা

In short sense, fire insurance is an insurance policy covering financial losses caused by damage to property by fires. In broad sense, fire insurance is a standard fire policy that usually covers fire due to any cause, subject to some exceptions which too may be covered with additional premium. These policies may be extended further (by paying additional premium) to include collateral damages or losses such as loss of income.

Definitions of fire insurance from various scholars are discussed below:-

**Insurance Act defines fire insurance as follows:** “Fire insurance business means the business of effecting, otherwise than incidentally to some other class of business, contracts of insurance against loss by or incidental to fire or other occurrence customarily included among the risks insured against in fire insurance policies.”

**According to M.N. Mishra,** “Fire insurance is a device to compensate for the loss consequent upon destruction by fire.”

**According to I. S. Kanwal,** “A fire insurance is an agreement between the insurer and the insured, under which the insurer agrees to indemnify the loss caused by the fire.”

From the above discussion we can find the following characteristics of fire insurance:-

- ❖ Fire insurance is a contract of indemnity.
- ❖ Fire insurance is a contract of good faith.
- ❖ Fire insurance policy is usually made for one year only.
- ❖ The contract of insurance is embodied in a policy called the fire policy.

Finally, we can say that fire insurance means insurance against any loss caused by fire. It is a form of property insurance covering losses due to fire; often includes additional coverage against smoke or water damage due to a fire.



**Define fire insurance.**

**BBA (Professional): 2011**

### 3.35 Feature/elements of fire insurance contract

অগ্নি বিমা চুক্তির বৈশিষ্ট্য/উপাদানসমূহ

Fire insurance means insurance against any loss caused by fire. The features/elements of fire insurance are discussed below:

1. **Features of general contract** (সাধারণ চুক্তির বৈশিষ্ট্য): All the features of general contract are also applicable to the fire insurance contract:
  - (a) **Proposal** (প্রস্তাবনা): The proposal for fire insurance can be made either verbally or in writing.
  - (b) **Acceptance** (গ্রহণযোগ্যতা): On receipt of the proposal form, the insurer will assess the risk.
  - (c) **Commencement of risk** (ঝুঁকি প্রবর্তন): When the policy has been insured, payment of premium will not be the basis of commencement of risk.
2. **Subject matter** (বিষয়বস্তু): This insurance subject matter is property, which is prefixed.