Role and Relevance of Intermediaries in Fire Insurance

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Abstract

The need of the Fire Insurance was first felt in the year 1666, as an outcome of Great Fire in London. The fire started from the shop of the Banker in the Pudding Lane which spreads and destroyed more than 436 acres of land, 13,000 houses, 89 places of worships i.e., churches and many more buildings. It is an insurance policy which covers any kind of land having some economic value including home constructions or fixings and fittings or machinery or stock or furniture etc. Against perils and gives monetary help to restore what one has lost, so the policyholder can return to the situation preceding the misfortune has happened.

Keywords: Insurance, Hazards, Subrogation and Insurance Agents

Introduction

Intermediary is the connecting link between the two parties in the contract and are also called as Middle Men. Insurance sector in India has a unique feature that it is required to be advertised vigorously so that insurance products are being purchased by common people. It is the duty of the seller who is an insurer or an insurance company sketch an outline, to visualize, to take necessary legal and regulatory sanction and then sell its products to customers. To ensure that insurance products are made available to the buyers who are interested in it and these interested buyers are persuaded in such a manner that they will buy the products – a sound intermediary came into picture, the Intermediary will tie an agreement between the insurers and the proposed buyers. Thus, an intermediary is an essential person in the insurance business.

Research objective

1. To understand the concept of Fire Insurance in India
2. To Study the Role played by the Insurance Intermediaries in Insurance Sector.
3. To understand the importance of the Insurance Intermediaries in Fire Insurance Industry.

According to **A.H. Willett**: “Insurance is a social device for making accumulations to meet uncertain losses of capital, which is carried out through the transfer of risks of many individuals to one person or to a group of persons.”

In general way insurance simply means making well the loss or pooling of resources to meet the uncertainties of the future. Thus, it is an agreement between persons i.e., insurer or insurance company and insured for a consideration known as premium, to pay another party a sum of money to meet the losses or damages occurred to him/her due to an occurrence of the specified event in the agreement.

Under the Insurance Act 1938 an insurance can be of following types:

Life Insurance- It is the policy taken by the insured to protect himself/herself or his /her family’s members from the hazards of contingencies obsessed on human life.

Non- Life Insurance/ General Insurance-In this type of Insurance a person is brought back to the same position he was before the happening of the contingencies. It is further divided into the following:

a.) **Fire Insurance**- As suggested by the name of the policy, it is taken by the individual to protect his/her property from the hazards which are associated with Fire.

a)**Marine Insurance**- It is policy taken to protect vessels, cargoes, freights etc. used for transit by way of water or land and includes ancillary hazards relating to transit.

b) **Miscellaneous Insurance**- It is issued to provide protection to motor vehicles, health, Liability, Burglary etc.

Thus, Insurance Sector plays an important role for building up the economy, as if no such safety is provided to the businesses, it will lead to halt in the economic activities because of the fear in the mind of businessmen related to various hazards which will eliminate the economic growth of the country further the profits which these business man expected to achieve through economic growth.

Features of Fir Insurance

Following are the essentials of the Fire Insurance Contract**:**

Insurable Interest- Property for which the policy is being taken, the insured person should have some interest in that property. That interest should be present at the time the insurance is being taken and also at the time the insured is claiming the loss suffered by him.

Utmost Good Faith- To correctly estimate the risk involved with the subject matter it is essential to the person taking fire insurance policy to clear all the important points as well as provide all the material information to the insurer like the locality where the property is situated, construction of the house and its probability of catching fire, what measures can be taken thereto etc.

But there is certain information which are not required to be disclosed such as:

- Which diminishes the risk
- Facts known or reasonably presumed to be known to the insurer

Common Knowledge

- Facts which the insurer in the ordinally course of business ought to know or reasonably inferred from the given details
- Facts which are superfluous to disclosed by the reason of condition or warranty

Indemnity- The policy of insurance is taken to make good the loss, thus it is the duty of the insurance company to make the good the policyholder's loss by providing financial aid or by restoration or renewal to fully compensate the policyholder, which is subject to the sum insured. No excess amount shall be given to the insured even though the loss suffered is more than the sum insured.

Justice Parke J. concluded that "policies of assurance against fire... are properly contracts of indemnity, the insurer engaging to make good, within certain limited amounts, the losses sustained by the assured in the buildings, ships and effects".[1]

Proximate Cause- In Fire Insurance, fire is the proximate cause. *"Causa proximate non-remota spectature"* is the rule which means that prompt and not the remote cause is to be regarded while estimating the insurance claim.

In a case a fire insurance policy was taken by the policyholder for his property. The property of the insured is situated at some distance from the place where gunpowder is stored. Explosion of the gunpowder shattered the windows and damaged the property.it was stated in this case that the prompt cause was a concussion of air and not the fire, thus the policyholder cannot claim the insurance.[2]

Subrogation-Right of indemnity and Right of Subrogation are corollary to each other. In this right the insurer can recovered the amount even from the third party in the case it will reduce the loss suffered by the insured.

Justice Diplock describe principle of subrogation as: "It gives the insurer the right to stand in the shoes of the insured and avail himself of all the rights and remedies of the insured, whether already enforced or not" [3]

Warranties- Under warranty insured undertakes that some particular thing shall or shall not be done or that some conditions shall be fulfilled or reaffirms or negatives the existence of the particular fact. These can be mentioned in the policy itself and are called as Express Warranty and those which are not mention are Implied Warranty

[1] Dalby v. India & London Life Assurance Co (1854) 15 CB 365, 387.
[2] Everett v. London Assurance (1865) 9 CB NS 1261
[3] Yorkshire Insurance Co. v. Nisbet Shipping Co. [1962] 2 QB 330, 339

The first Implied Warranty in Fire insurance may include that the property structure is not inferior should be made of bamboo or wooden roof and the Second warranty is that the fire extinguishing and privacy should be fixed with the property and maintained properly.

Types of Fire Insurance Policy

The policies under fire insurance are of different kinds as follows:

Valued Policy – this policy is taken for pictures, sculptures, work of art, jewelry and all other things whose market value cannot calculated or ascertained at the time the policy is taken or at the time of loss by fire. The insured consents to pay a pre-decided sum if the thing is annihilated or harmed by fire. The value of the property might be pretty much than the market esteem at the hour of misfortune

Unvalued Policy- In this policy the claim amount is not calculated at the time of the policy is taken and is determined on the basis of market value of the loss suffered by the property.

Specific Policy- this policy is taken by the insured for the specific property during a specific period and for a specific amount subject to the condition that it should not be in excess of the specific amount insured.

Special Fire Policies- these policies include the following:

a) Floating Policies- these policies are generally taken by manufactures or traders as their goods are lying in different places or warehouses or gowdowns because this policy alone protects the goods at different places for one sum.
b) Average Policy- In a contract of Fire Insurance if there is an Average Clause it is called as Average fire Insurance Policy. This clause discourages the insured person from taking a policy for the amount which is lower to the actual value of the subject matter otherwise he himself will be the insurer for such amount.
c) Comprehensive Policy- As the name suggest, this policy covers risk not only from the fire but also risk attached with riot, civil commotion, theft, damage from lightning, burglary and explosion. Another word for this policy is “All in Policies”.
d) Consequential Loss Policy- This policy provides financial aid to the policyholder for the loss his/her business suffered financially due to fire. For example, the consequence of fire may cause the halt on the operations of the business for a

period of time as a result of which net profits will be lower and the expenses will be at the same rate i.e., rent, salaries etc.

Insurance Intermediaries

Intermediary is the connecting link between the two parties in the contract and are also called as Middle Men. Insurance sector in India has a unique feature that it is required to be advertised vigorously so that insurance products are being purchased by common people. It is the duty of the seller who is an insurer or an insurance company sketch an outline, to visualize, to take necessary legal and regulatory sanction and then sell its products to customers. To ensure that insurance products are made available to the buyers who are interested in it and these interested buyers are persuaded in such a manner that they will buy the products – a sound intermediary came into picture, the Intermediary will tie an agreement between the insurers and the proposed buyers. Thus, an intermediary is an essential person in the insurance business.

In Insurance Sector, an intermediary is an individual or an organization that assist in purchasing protection. The presence of an intermediary eases the procedure of arranging and purchasing of insurance and give assistance both to the insurer and customers.

Types of Insurance Intermediaries

Classically, the intermediaries are of two types

Insurance Agents- An Agent is an individual who work for another person or who on behalf of another person conduct business with third persons. The role of an insurance agent is to carry his principle into legally binding relations with third people. An insurer is an individual for whom the above act is done or who is so addressed. This contract of agency between the insurer and the insurance agent is also governed by the **Indian Contract Act 1872** under section 182 to section 238.

According **section 2(10) of the Insurance Act, 1938** an insurance agent is the person who-*"is licensed under Section 42 of the said Act and who received or agrees to receive payment by way of commission or other remuneration in* *consideration of his soliciting or procuring insurance business including business relating to the continuance, renewal or revival of policies of insurance"*

Insurance Broker- According to **Regulation 2(i) of the IRDA (Insurance Brokers) Regulations, 2002**, an insurance Broker:

"*person for the time being licensed by the Authority under Regulation 11, who for remuneration arranges insurance contracts with insurance companies and/or reinsurance companies on behalf of his clients."*

A Broker varies from an Agent as a Broker addresses clients' interests and is needed to choose the best insurance policy among all insurance agencies whereas an Insurance Agent works on behalf of the Insurance company and will introduce those policies of the insurer(s) with whom the he/she is connected with.

Surveyor or a Loss Assessor- Surveyor or a Loss Assessor is important for Non-Life Insurance business, where evaluation of the deficiency of the thing insured is vital for choosing the claim sum. As Non- Life Insurance contracts are reimbursement contracts in nature, the sum paid by the insurance agency can't surpass the amount of actual misfortune caused. The work of the Surveyor or a Loss Assessor is consequently to show up at the exact sum of contingency caused and his job is essential to an insurer.

The essential obligation of a Surveyor or a Loss assessor is to appraise the liability of the misfortune caused by the Policyholder who has taken a policy of insurance, to empower the insurer to show up at the sum to be repaid to the Policyholders under the terms of contract.

Overview of Legal regimes governing insurance intermediaries

Following are the acts and Regulations governing the intermediaries in insurance sector:

Insurance Act 1938- **Section 2(10)** of the act defines the term *Insurance agents* and **section 42** and **43** deals with the licensing of the insurance agents.

Further **Section 64UM** laid down the provision for the licensing of the *Surveyors and Loss Assessors*.

Indian Contract Act 1872- A *Contract of Agency* will be governed by the provisions of this act from **section 182 to 238.**

- **IRDA (Licensing of Insurance Agents) Regulations, 2000 and IRDA (Licensing of Corporate Agents) Regulations, 2002-** These regulations set out the framework of licensing i.e., qualification, disqualification, renewal of licence etc for the individual as well as Corporate agents. 2002 regulations also provides that the following can come under the category of the Corporate Agent:

(a) Firm
(b) Company under the Companies Act, 1956 (now 2013)
(c) Banking company
(d) Co-operative society
(e) Panchayat or local authority
(f) Non-Government organization

IRDA (Insurance Brokers) Regulations, 2002- Regulation 2(i) and Regulation 11 deals with the definition and the licensing of the *Insurance Brokers.*

Insurance Surveyors and Loss Assessors (Licensing, Professional and Code of conduct) Regulations, 2000- Regulation 3 set out the requirements to get the license to be *Surveyors and Loss Assessors.*

Importance of intermediaries in fire insurance industry

The Fire Insurance in India is staying an undiscovered market. By and by, Fire Insurance Sector in India is faced with the following difficulties and call viable interest of different middle men to address these challenges:

1. **Lack of awareness**

The lack of awareness among the general public with the policies of fire insurance in India is the most significant factor which restrains its subscription. There additionally exists an absence of knowledge about the different type of fire insurance policies and its features as well as the excluded perils in these policies. Thus, it becomes difficult for the customer to select the fire policy that will be best suited with his/her property for which insurance is to be taken.

2. **Levels of complexities and technicalities are high**

Understanding of the policy plays an important role for protecting the consumers from taking fraudulent policies or from being the victim of frauds in insurance sector. Due to complexities in the **Standard Fire and Allied Perils Policy,** a confusion is always there in the mind of public because of which this policy has not gained importance in India.

3.**Mis selling of fire insurance products**

Selling of insurance items or policies either by concealing realities or giving bogus data to the purchasers is a normal practice in Insurance sector. The reason for this practice is very simple as the insurer or insurance company tries to meet their higher targets within less period of time.

For Example, a person X has already taken a comprehensive Policy for his property but the insurer suggested him to buy a fire insurance policy to protect his property from fire by short-circuiting in order to meet the sale targets

Role of intermediaries in Fire Insurance sector

To resolve the challenges mentioned above an individual who has experience and expertise in the field of insurance is required and that Person is the middleman, or an intermediary plays the following role:

New way of advertising and promoting of insurance

New and Creative method of Promoting Fire insurance Business are adopted by the Intermediaries. This strengthen and widens insurance industries by expanding buyers' consciousness and understanding of the assurances offered by Insurance Company, their familiarity with the large number of insurance policy choices, and their knowledge regarding how to buy the policy they need.

These Intermediaries time and again come up with new promotion techniques by keeping in mind the ever changing needs of the consumers.

Creating awareness among the consumers relating to insurance products

Intermediaries furnish clients with the vital data needed to make educated choices. Intermediaries can clarify what a customer needs, and what the alternatives are as far as insurance companies, policies and costs are concerned Confronted with an educated customer base that has numerous options, insurance provider will offer policies that fit their clients' requirements at competitive costs.

Communicating the needs of consumers to the Insurers/ Insurance Company

Insurance agents/brokers assemble and assess data with respect to placements, charges/premiums and claims insight. At the point when such information is joined with a mediator's knowledge of the necessities of its customers, the mediator is very much situated to support and aid the improvement of new and creative insurance policies and to make markets where none have existed. Also, dispersal of information and extension of business sectors inside a country and globally can assist with pulling in more straightforward investment for the insurance area and related enterprises.

Further he will look into the property for which policy is need, then he will look into how that property is constructed, what is the age of that property and find such fire insurance policy which will able to bring the business of the policyholder back to its real position in the case of any such mishappening.

1. Fair competition

Expanded purchaser information eventually helps increment the interests of the public in insurance and improve insurance take-up rates. Expanded usage of Insurance policies permits makers of products and ventures to capitalize the Risk management spending plans to have an upper hand in the market and exploit a more serious monetary environment, boosting economic development.

2. Reduction in cost

Insurance agencies need not discover the clients as the delegates i.e., the intermediaries were working for them. By decreasing protection costs across the business sectors, delegates make a significant commitment to improve the financial conditions.By helping to reduce costs for insurers, broker services also reduce the insurance costs of all undertakings in a country or economy. Because insurance is an essential expense for all businesses, a reduction in prices can have a large impact on the general economy, improving the overall competitive position of the particular market.

3. Risk management

Insurance Intermediaries give monetary consultative facilities what's more, help the organizations to comprehend their risk outline. This aide these intermediaries to deal with their hazards and to improve hazard profiles. Intermediaries work with different insurance companies, a diversity of customers, in a wide geological spread. They help transporters spread the dangers in their portfolios as indicated by industry, market environment, volume, line of insurance and different elements. This aide's insurance companies from getting over-uncovered in a specific insurance market or a specific sort of risk/peril, along these lines liberating valuable assets for use somewhere else.

4. Surveyors and loss assessors protects the insurer from fraudulent claims on the part of the clients

It is the duty of these Intermediaries Support of classification and lack of bias in the misfortune evaluation work out. He needs to keep the interests of both the guarantor and the policyholder as a primary concern He should research the causes and conditions of the misfortune being referred to He should by and by direct a spot overview and remark upon overabundance protection or under protection.

Conclusion

The significance of the Insurance Sector in its present situation and in different economies is unchallenged and has always been perceived across the globe.

An economically fit insurance area adds to the financial development by overseeing hazard, designation of assets and preparation of investment funds. In India with increase in number of insurer/ insurance organizations is also bringing about to an ever-increasing extent items being presented each week. It is difficult for a client to know the particulars and to conduct evaluation of all the items and what item satisfies his need successfully. This is the time that he needs the help of an expert association with very much prepared individuals.

In most cases the services rendered by the insurer are very complicated events and credence stuff. Accordingly, an evaluation of their highlights and the capacity to pick among numerous assorted offers requires specific information. As a result of high data imbalances and high pursuit costs Insurance agents play a significant job in intervening between the two parties.

An insurance intermediary brings new techniques of advertising, creates awareness about the insurance products, communicating the needs of consumers to the insurers/ insurance company, helps in risk management, reduce the cost of approaching customer and helps to improve economic growth.

Further, in case of general insurance policies like fire insurance surveyors and loss assessors protects the insurer from fraudulent claims made on the part of the clients. It builds up a trust relationship between insurance company and the surveyors and loss assessors as the amount calculated by these intermediaries for the loss occurred to the consumer will be paid by the insurer.

This assists with developing the insurance markets by expanding purchaser's consciousness of the safeguards offered by different insurer, their attention to the large number of insurance choices and their understanding with respect to how to buy the protection they need.

thus, intermediaries' hand in building new techniques of promoting fire insurance products will increase the importance of this protection among the consumers to take policy not only for their business or warehouses or go downs but also for their personal houses or farmhouses. This helps the fire insurance sector grows in India.

The insurance intermediary will acquire the best arrangements accessible, but any cases are managed through the intermediary will save the inconvenience and stress, through what can be a troublesome and baffling cycle.

As more requests might be made to middle people (intermediaries) in the energetic paced world of business deals/affairs, more liabilities may likewise be forced on these intermediaries. Accordingly, an agent needs to take note of the terms and conditions of cover and the excluded perils and be ready to exhort the clients likewise. The fire insurance sector in India is yet in its beginning phases of advancement and will observer radical difficulties, to develop more the insurance intermediaries will consistently assumes a fundamental part in its advancement.

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