CHAPTER SIX

NON-LIFE INSURANCE

Introduction

As insurance has developed, the various types of cover have been grouped into several classes, which have come about by practice within insurance company offices, and by the influence of legislation controlling the financial aspects of transacting insurance. Insurance offices are generally split up into departments or sections, each of which will deal with types of risk, which have an affiliation with each other. There is a very wide variety in the way in which companies organize their business, but the following divisions are not unusual:

- Fire, including business interruption;
- Accident, including theft, all risks, goods in transit, glass, money, credit, fidelity
- Liability, including employers' liability, public liability, products and professional indemnity,
- Motor; engineering; marine and aviation; life and pensions

Many of these terms will mean little to you at this point but we will be looking, in this section, at the classes of insurance available. Depending on the amount of business transacted, some branches may split, say, the accident department into several distinct sections or departments, while on the other hand if the amount of business written is relatively small the accident and liability departments may be combined. There is also a tendency to create 'personal' departments handling all non-life business for the private individual, thus leaving the other departments to concentrate on the more intricate commercial and industrial risks. Some insurers also have special branches, or areas of branches, for the use of brokers. In this way, the broker can meet and build up a working relationship with the same insurance official. A discussion on other types of insurance follows.

6.1. Motor insurance

The minimum requirement by law is to provide insurance in respect of legal liability to pay damages arising out of injury caused to any person. Policies with various levels of cover are available:

- Third party only: provides cover in respect of liability incurred through death or injury to a third party, or damage to third party property.

- Third party, fire and theft: provides cover as above and in addition includes cover for damage to the vehicle from fire or theft.
- Comprehensive: provides cover as above and in addition including cover for accidental loss of, or damage to, the vehicle itself. This is the most common form of policy.

Private car insurance applies to private cars used for social and domestic purpose and/or business purposes. Comprehensive policies issued to individuals also include personal accident benefits for the insured and spouse, medical expenses and loss of, or damage to, rugs, clothing and personal effects.

Vehicles used for commercial purposes (including Lorries, taxis, vans, hire cars, milk floats and police cars) are not insured under private car policies, but under special contracts known as commercial vehicle policies.

Separate cover is available for motorcycles. The types of policy depend upon the machine, whether it is a moped or a high-powered motorcycle, and on the age and experience of the cyclist. The cover is comparatively inexpensive relative to motorcar insurance.

Special policies are offered to garages and other people within they motor trade, to ensure that their liability is covered while using vehicles on the road. Damage to vehicles in garages and showrooms can also be included under such policies.

In addition to private cars, motorcycles and commercial vehicles, there are a number of vehicles, which fall into a category known to insurers as ‘special types’. These will include forklift trucks, mobile cranes, bulldozers and excavators. Such vehicles may travel on roads as well as building sites and other private ground. Where these vehicles are not used on roads and are transported from site to site, it is more appropriate to insure the liability under a public liability policy, since the vehicle is really being used as a ‘tool of trade’ rather than a motor vehicle and include fire, theft, collision and a wide range of other perils.

The main types of policy are:

- Time policy: this is for a fixed period, usually not exceeding 12 months.
- Voyage policy: operative for the period of the voyage; for cargo the cover is from warehouse to warehouse.
- Mixed policy: covers the subject matter for the voyage and a period of time thereafter, for example while in port.

- ♦ Building risk policy: covers the construction of marine vessels.
- ♦ Floating policy: this provides the policyholder with a large reserve of cover for cargo.

A large initial sum is granted and each time shipments are sent, the insured declares this and the value of the shipment is deducted from the outstanding sum insured.

6.3 Burglary and house breaking policy

This policy covers losses from burglary and housebreaks. This policy doesn't cover the following losses.

- ❖ Losses due to war, invasion, mutiny riots, strikes, civil commotions, military popular rising, insurrection rebellion and martial law.
- ❖ Loss arising from ionizing radiations /contamination by radioactivity from any nuclear fuel / nuclear waste from combustion of nuclear fuel.
- ❖ Loss caused by nuclear weapon material
- ❖ Loss from material alteration without consent from the firm.
- ❖ Loss of property that can be insured under another policy unless otherwise specifically provided.

Marine and transport insurance

A. Marine cargo

Marine policies relate to three areas of risk: the hull cargo and freight. While hull and cargo is self-explanatory, the word freight may not be: it is the sum paid for transporting goods, or for the hire of a ship. When goods are lost by marine perils then freight, or part of it, is lost; hence the need for cover.

The risks against which these items are normally insured are collectively termed ‘perils of the sea’ Cargo is usually insured on a warehouse (of departure) to warehouse (of arrival) basis and frequently covering all risks. Terms of sale and conditions of carriage have important implications for cargo insurers where goods may change ownership and pass through the hands of more than one shipper or hauler. It is vitally important in cargo insurance to establish who is responsible for the insurance cover and to work out when the risk passes from the consignor to the consignee.

Insurers often rely on inadequate packing/loading to modify claims under cargo covers. Where appropriate insurers will pay claims and then seek recoveries from carriers.

B. Marine liabilities

The custom has been to provide insurance for three-quarters of the ship owner’s liability for collisions at sea under a marine policy. The remaining quarter, and all other forms of liabilities are catered for by associations set up for the purpose by ship owners and known as Protecting and Indemnity Clubs (P and I clubs). It should be noted that the P and I clubs could now insure hull and machinery as well as liabilities.

6.5. Aviation insurance

The use of aircraft as a means of transport is increasing each year and because of the specialist and technical nature of the risks associated with it, plus the high potential cost of accidents, all aviation risks, from component parts to complete jumbo jets are insured in the aviation insurance market.

Most policies are issued on an' all-risks’ basis, subject to certain restrictions. The buyers of these policies include the large commercial airlines, corporate aircraft owners, private owners and flying clubs. Usually a comprehensive policy is issued covering the aircraft itself (the hull), the liabilities to passengers and the liabilities to others.

Liability for accidents to passengers is governed by an international agreements and national laws around the world. The main ones are the Warsaw convention 1929, which made signatories liable to passengers without negligence, subject to certain maximum amounts, and the
Hague protocol 1955, which raised some of these limit. The national laws may place higher limits on domestic flights. For domestic flights within the UK the provisions of the carriage by Air Act
1961 apply together with orders made under it. You will find reference to limits of liability in the small print, which forms part of the standard airline ticket.
The position has been made more complex by some governments imposing on their national airlines increased limits of liability, which do not have worldwide approval. Although the appropriate rules for calculation of legal liability are normally determined by reference to the country at point of departure and the country of destination recorded on the ticket, an airline disaster may produce claims from passengers of many nationalities.

It is interesting to note that in Goldman. Thai Airlines International (1981), it was held that the limits did not apply when the aircrews were 'reckless' in flying the aircraft. In the aftermath of the Lockerbie disaster, there have been a number of attempts at securing much higher compensation than the agreements laid down. Some claims have been settled for higher amounts, especially when the limits have appeared low in relation to the earning capacity of the passenger.

There have been unsuccessful efforts to increase the Warsaw/Hague limits. Change will only be piecemeal without the support of the major airline operating countries, notably the United States of America.

The two international agreements also place limits on liability for goods carried by air. Unless of special risk or value, cargo is usually insured 'all-risks' in the marine or general markets rather than in the aviation market. Other groups of persons requiring aviation liability cover are aircraft and aircraft component manufacturers, and airport authorities.

Fire and Other Property Damage Insurance

There are a number of different ways in which property can be damaged. One needs only to think of a small factory unit to imagine all that can be damaged and all the ways in which damage can be sustained. Fire and theft probably come to mind first, but then there are very many different forms of accidental damages.

Fire Insurance

In most commercial policies the insured will require cover for buildings, machinery and plant, and stock. These are the three main headings under which property is insured and in some cases a list of such items can run to many pages, depending upon the size of the insured company.

In addition to these areas it may be necessary to arrange cover for property while it is still being built, that is buildings in course of erection, but this form of cover is gradually giving way to a policy known as 'contractor's all-risks' which will be discussed later.

A standard fire policy is used for almost all business insurances, with Lloyd's of London also issuing a standard fire policy that is slightly different in its wording. The basic intention of the fire policy is to provide compensation to the insured person in the event of there being damage to the property insured. It is not possible, in the commercial world, to issue a policy that will provide compensation regardless of how the damage occurs. The insurance companies, the insurers, have to know which perils they are insuring against.

The standard fire policy covers damage to property caused by fire, lightning or explosion, where this explosion is brought about by gas or boilers not used for any industrial purpose.

This is limited in its scope because property can be damaged in other ways and, to meet this need, a number of extra perils (known as special perils) can be added on to the basic policy. These perils are:

- Storm, tempest or flood;
- Burst pipes;
- Earthquake;
- Aircraft;
- Riot, civil commotion;
- Malicious damage;
- Explosion;
- Impact.

It is important to remember that these additional perils must result in damage to the property, and it is as well to precede each by saying 'damage to the property caused by special peril element'.

Theft insurance

Theft policies have the same aim as the standard fire policy, in that they intend to provide compensation to the insured in the event of loss of the property insured.

The property to be insured, for a commercial venture, will be the same as under the fire policy, of course except for the buildings. The theft policy will, in addition, show a more detailed definition of the stock. The reason for this is that fire is indiscriminate, whereas a thief is not, so the insurers charge more for stock which is attractive to thieves.

The law has its own definition for theft having an impact on insurance companies, as it defined the term 'theft'. The legal definition was wider than that which the companies were prepared to offer, especially for business premises, because the definition did not mention any need for there to be force and violence in committing a theft. This meant that shoplifting, for example, was 'theft' and this kind of risk had traditionally been uninsurable. To remedy the problem, insurance companies included in their policies a phrase to the effect that theft, within the meaning of the policy, was to include force and violence either in breaking into or out of the premises of the insured.

Comprehensive Insurances

A step on from issuing combined policies, which is only the combination of separate policies within the one folder, is the comprehensive policy. This form of insurance represents a widening in the scope of cover. It is also sometimes called a 'package' policy and is an attempt by insurers to have a single policy section detailing the policy cover, exclusions and conditions. For example, the household comprehensive policy covers the basic perils mentioned above and also includes cover against damage caused by collapse of television aerials, leakage of central heating oil, the breakage of underground water pipes, sanitary fittings and many more risks.

This widening of scope of the perils insured has been accompanied by alterations in the basic method of providing cover, so that today it is possible to arrange a household comprehensive policy which provides cover against damage caused by almost any event and with the amount being paid representing what it will actually cost to replace the damaged property.

This widening in cover has not been without its problems and many insurers have experienced large losses on their household insurance business, as a result of which substantial increases in premiums have been introduced.

Uncertainty of loss in not restricted to events brought about by fire or theft, nor is it limited to events occurring on or about the insured's premises. This realization led, as we noted earlier, to the development of a wider form of cover known as all risks. However, the term 'all-risks' is unfortunate as a number of risks are excluded, but it is an improvement on the scope of cover available.

- **Personal effects**

'All-risks' policies are very popular with individuals who seek a wider protection than that afforded the policies available to cover household effects. The 'all-risks' policy can be taken out on particularly expensive items such as jewelers, cameras and fur coats, and can also be arranged on unspecified goods for a lump sum. The twin objectives of such policies are to provide cover for the whole range of accidental loss or damage and to do so wherever the goods themselves happen to be at the time of loss.

- **Business 'all risks'**

The use of 'all-risks' policies in the commercial sector is becoming more popular, as expensive and sophisticated pieces of machinery are introduced to the factory and the office.

The advent of the microprocessor and the silicon chip mean that comparatively small machines, often-desktop equipment, are replacing larger and bulkier apparatus. It would be quite easy for a small desktop computer to be accidentally dropped or otherwise damaged. Their small bulk conceals a high value and the owner may well consider an all risks policy to be worthwhile if it assists in removing some of the uncertainty.

- **Goods in transit**

This form of cover provides compensation to the owner of goods is those goods are damaged or lost while in transit. Different policies can be taken out, depending upon whether the goods are carried by the owner's own vehicles or by a firm of carriers. In the same way, the carrier can effect a policy, as he is often responsible for the goods while they are in his custody. We depend to a great extent of the carriage of goods by road and this form of cover is an important aspect of industrial activity.

Forms of goods in transit insurance are also available for those who send their goods be rail or by post. The compensation provided by British Railor the post office is often far less than the value of the goods is carried, and in such cases it is a wise precaution to have arranged adequate insurance.

- **Contractors' 'all risks'**

This is one of the relatively newer forms of insurance that has been developed to meet the changing needs of industry. When new buildings or civil engineering projects such as motorways or bridges are being constructed, a great deal of money is invested before the work is finished.

There is a risk that the particular building or bridge may sustain severe damage, thus prolonging the construction time and delaying the eventual completion date. The risk becomes more acute as the completion date draws near, and there are many examples of buildings and other projects sustaining severe damage, and even total destruction, only days before they were to be handed over to the new owners.

Should damage occur then, the contractor would have to start building again, or at best repair the damage. The extra cost involved cannot be added on to the eventual charge the contractor will make to the owner for having carried out the building work. As a result, the need arose for some form of financial protection, and this came with the development of contractors' all risks insurance. The intention of the policy is to provide compensation to the contractor in the event of there being damage to the construction works from a wide range of perils.

Money insurance (Pecuniary insurance)

The loss of money represents the final form of all risks cover that we will consider the policy provides compensation to the insured in the event of money being stolen either from his business premises, his own home, or while it is being came to or from the bank. Even for the person running a medium sized business, this is an extremely important form of cover since large sums of money are drawn from banks to meet wages and these can often be the target for hold ups.

One important addition to this cover is often the provision of some compensation to employees who may be injured or have clothing damaged during a robbery

Engineering Insurance

The provision of engineering cover had its beginnings with boiler explosions, which still form a major part of the work done by engineering insurers. However, the increasing sophistication of industry has resulted in them moving on to cover other forms of engineering plant, particularly lifts, cranes, electrical equipment, and, more recently, computers.

The cover is intended to provide to provide compensation to the insured service being damaged either by some extraneous cause or by its own breakdown.

Engineering insurers still continue to provide an inspection service on a wide range of engineering plant. This is a service much sought after by industry, not only because many forms of inspection are compulsory by law, but also because engineering insurers have built up a considerable expertise in this area.

Engineering cover can be summarized as:

I. Damage to, or breakdown of specific items of plant and machinery;

II. An inspection service of those items;

III. Cost of repair of won surrounding property

IV. Legal liability for injury