

WRITING FIRE INSURANCE



Presented

By

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ORIGIN OF INSURANCE



From the beginning, human societies sought ways to soften the shocks of existence. Our ancestors were very much aware that no individual could do it alone, that only by pooling the resources of the many could help the unfortunate.

In ancient Babylonia, enterprising merchants sent caravans and ships to trade with all parts of the known world: Egypt, Phoenicia, India and China.

ORIGIN OF INSURANCE

To reduce the risk of robbery, plunder and capture for ransom, the Babylonians devised a system of contracts:

- The supplier of capital venture agreed to cancel the loan if the Trader was robbed of his goods.
- The trader who borrowed the capital paid an extra amount for this protection (a premium) in addition to the usual interest.
- Collecting these premiums from many Traders made it possible for the Lender to absorb the losses of the few.

ORIGIN OF INSURANCE

Other forms of insurance terminology are also derived from ancient practices of Mediterranean commerce.

The origin of the word **"UNDERWRITER"**, is Italian, from an old system of signing contracts on marine insurance.

Businessmen who agreed to share in the profit or loss on a certain venture signed their names underneath the contract, writing at the same time the amount of the risk assumed by each.

In 1666 the Great Fire of London finally and forcibly demonstrated the need for FIRE INSURANCE.

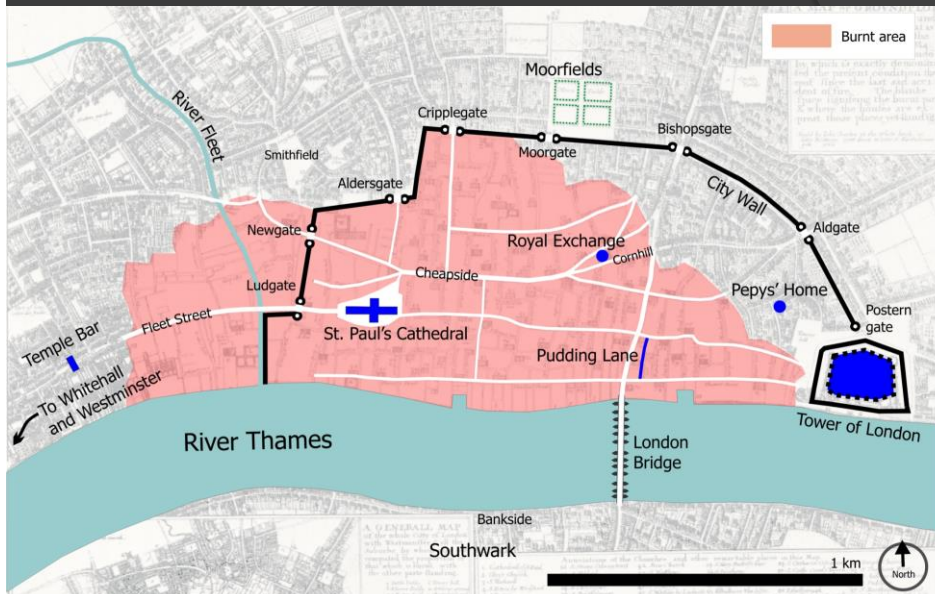
ORIGIN OF INSURANCE

THE 1666 GREAT FIRE OF LONDON



ORIGIN OF INSURANCE

THE GREAT FIRE OF LONDON



ORIGIN OF INSURANCE

THE GREAT FIRE OF LONDON (Effects)

- Destruction of medieval London started on a Sunday, September 2, 1666.
- The fire began in the house and shop of Thomas Farynor, the King's baker.
- Within five days, the city was ravaged by fire.
- An area 1-1/2 miles by 1/2 mile lay in ashes; 373 acres inside the city wall, 63 acres outside, 87 churches and 13,200 houses.
- Only six people were definitely known to have died – but it would seem probable that many more perished.

ORIGIN OF INSURANCE

THE GREAT FIRE OF LONDON (Lessons Learned)

- There was little useful equipment to fight the blaze. Buckets, axes, ladders, squirts and fire hooks were rotted through neglect, and water supplies, apart from the river were scarce.
- When the Mayor was asked if houses could be pulled down to make fire-breaks, his reply was, "Who will pay for the rebuilding?"
- Eventually, a Royal command was issued to pull down the houses
- But the trained bands called out to help conducted their demolition work too close to the fire and the ruins they left merely became added fuel to the fire.

ORIGIN OF INSURANCE

AFTERMATH : THE GREAT LONDON FIRE

- It organized the organized firefighting of the future.
- Old wooden houses were replaced by brick ones and owners began to insure their premises against fire.
- Insurance companies were granted charters to provide fire assurance
- Insurance companies realized it was in their own interests to hire men to put out fires in buildings under their cover.

ORIGIN OF INSURANCE

NEW WORLD

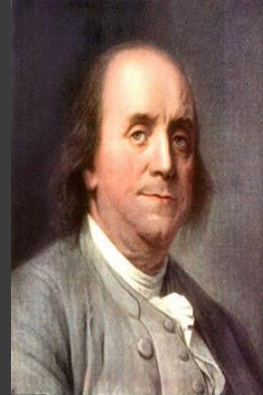
As in Europe, insurance in the New World began with the individual underwriter who was, in each case, the forerunner of corporations. The oldest known policy in the United States was written in Boston in 1745 for a Providence, Rhode Island merchant.

- The first company to be formed was a mutual, *The Friendly Society*, to insure houses and tenements.
- It had its beginnings on January 18, 1732, in Charles Town (now Charleston) South Carolina.

ORIGIN OF INSURANCE

NEW WORLD

- In Philadelphia, Benjamin Franklin, in his *Pennsylvania Gazette*, announced the formation of the second fire insurance company in America.
- Established in February 18, 1752, it was called the Philadelphia Contributorship.
- This was a mutual company, incorporating the principle : “whereby every man might help another without any disservice to himself.”



ORIGIN OF INSURANCE

NEW WORLD

THE PHILADELPHIA CONTRIBUTORSHIP WAS ALSO THE FIRST COMPANY TO MAKE DEFINITE CONTRIBUTIONS TOWARD FIRE PREVENTION.

- It recognized certain hazards and warned against them or simply refused to insure buildings where these risks existed.
- Wooden buildings were not accepted.
- Homeowners were cautioned not to have meat smoke houses in their houses, a common practice.
- They were permitted to have either shade, trees but not both, as the former were considered definite risks, attracting lightning and interfering fire fighting efforts.

Fire disasters hit major cities in the United States.

1835 New York Fire



Gas escaping from broken line
ignited the coals in stove.

Great Boston Fire - 1872



View of Boston after the fire.

- **Began at the basement of a commercial warehouse.**
- **Raged at the financial district for 15 hours.**
- **20 people died in the conflagration.**

1906 SAN FRANCISCO EARTHQUAKE and FIRE



Buildings destroyed – 28,000. The 3-day conflagration following the earthquake caused substantial damage than did the earthquake.

Aerial view of San Francisco after the quake.

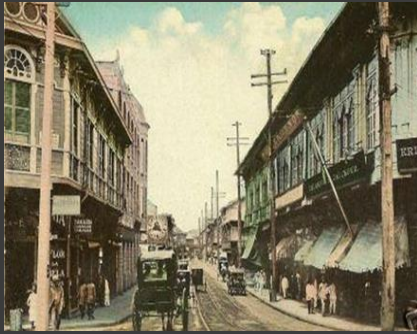


- Dead – more than 3,000
- Homeless – 225,000 from a population of 400,000
- Monetary loss – more than \$400 million.

ORIGIN OF INSURANCE

PHILIPPINES

THE FIRST DOMESTIC NON-LIFE INSURANCE COMPANY WAS ESTABLISHED ON JUNE 8, 1906. THIS WAS THE **YEK TONG LIM FIRE and MARINE INSURANCE COMPANY**, NOW KNOWN AS THE **PHILIPPINES FIRST INSURANCE COMPANY**.



ESCOLTA CIRCA 1920s



ESCOLTA CIRCA 1950s

FIRE INSURANCE



<http://bbsinternational.blogspot.com>

Philippine Insurance Code

Section 167

“The term ‘**FIRE INSURANCE**’ shall include insurance against loss by fire, lightning, windstorm, tornadoes, or earthquakes and other **ALLIED RISKS** , when such risks are covered by extension to fire insurance policies or under separate policies”.



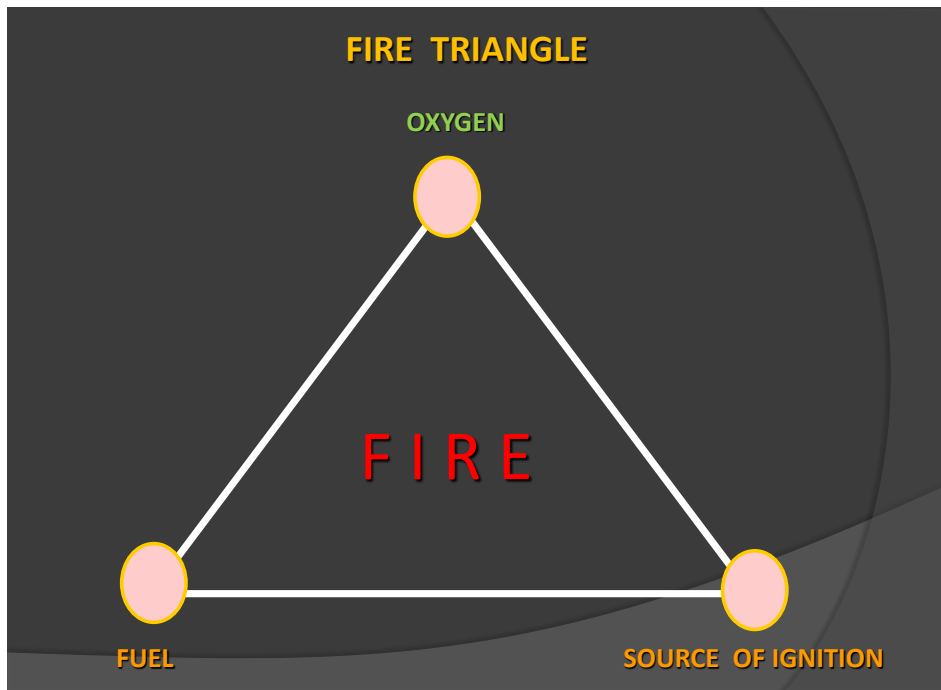
“FIRE” -

What is fire?

Rapid oxidation producing either flame (ignition) or glow; or

Combustion of sufficient velocity producing flame, glow or incandescence.

Fire is always caused by combustion (oxidation), but combustion does not always cause fire. Regardless of the amount of heat, there can be no fire until ignition takes place.



LIGHTNING

- Discharge of atmospheric electricity
- Must be of natural occurrence
- Damage or loss to the insured property where lightning is the proximate cause is compensable under the policy
- Note that there need not be evidence of fire for damages caused by lightning to be compensable

Kinds of Fire

- **Friendly Fire**

Fire which is

- deliberately kindled and
- remains within the limits intended for it.



- **Hostile (Unfriendly) Fire**

Fire which goes beyond

- the confines intended for it and
- goes beyond the control of its custodian.



REQUISITES OF "FIRE"

The following requisites or characteristics are necessary in order for "fire" to be covered within the context of **"FIRE INSURANCE"**:

- **"Fire"** must have flame or ignition of sustaining velocity.
- **"Fire"** must be hostile.
- **"Fire"** must be of accidental origin on the part of the Insured.
- **"Fire"** must be the proximate cause of the Loss or damage.

What is a ***RISK*** ?



RISK is defined as the chance of loss.

CLASSIFICATION OF RISKS

PURE or STATIC RISKS

Those risks from which there is no possibility of FINANCIAL GAIN, only losses, such as risks of Fire, Earthquake ,Typhoon, Flood, etc.



PURE or STATIC RISKS



Typhoon

PURE or STATIC RISKS



Flood

PURE or STATIC RISKS

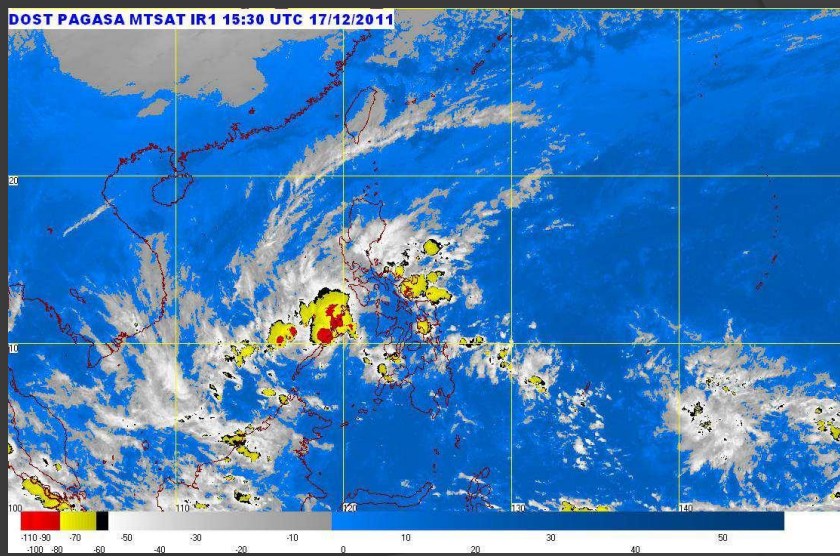


Earthquake

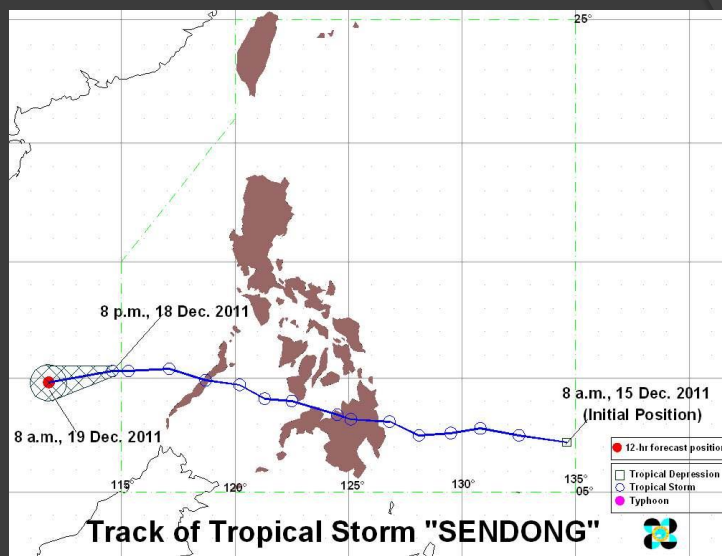
TYPHOON ONDOY (September 2009)



Typhoon Sendong – December 2011



Typhoon Sendong – December 2011



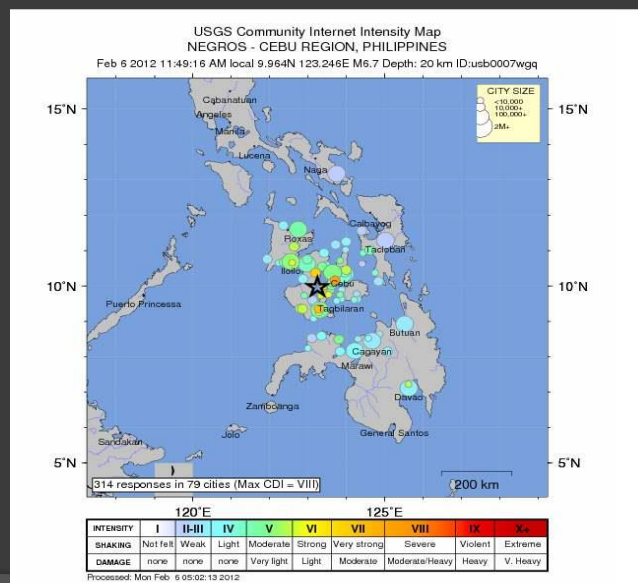
Typhoon Sendong – December 2011



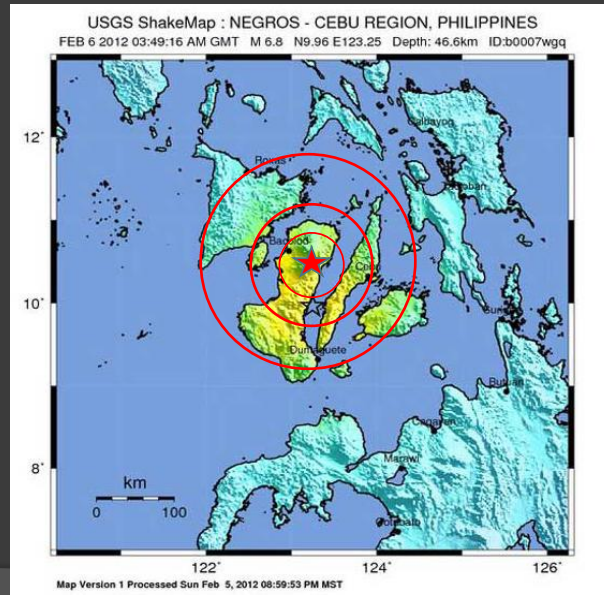
Typhoon Sendong – December 2011



Negros – Cebu Earthquake (Feb. 6, 2012)



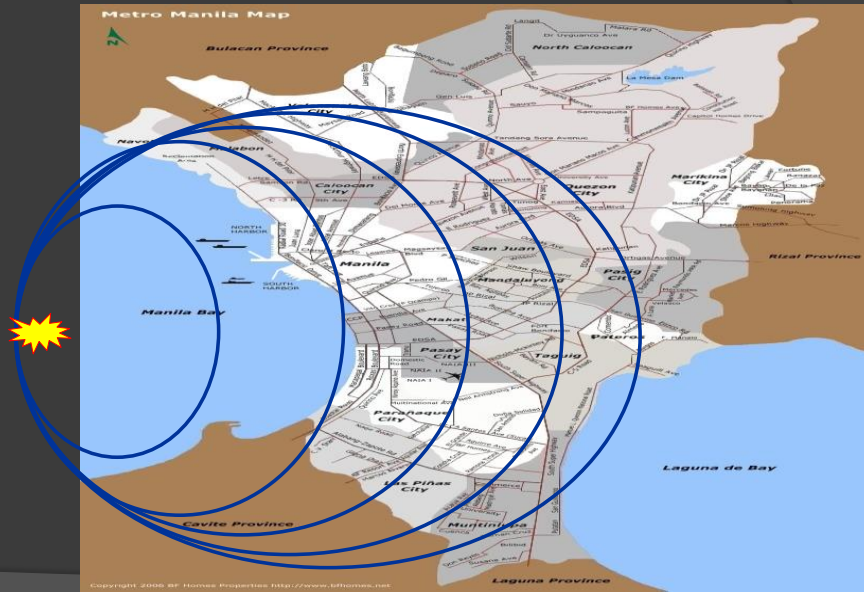
NEGROS – CEBU EARTHQUAKE (Feb. 6, 2012)



Negros – Cebu Earthquake (Feb. 6, 2012)



TSUNAMI SCENARIO – METRO MANILA



Japan Earthquake and Tsunami – March 2011



Japan Earthquake and Tsunami – March 2011



Tsunami rushing inland for 6 miles.

Japan Earthquake and Tsunami – March 2011



SPECULATIVE or ENTREPRENEURIAL RISKS

Are those risks in which there is a possibility of Financial Gain or Financial Loss such as the risks of introducing a new product or entering a new market.



DEFINITION OF TERMS:

- **PERIL** – the cause of loss or risks:
 1. Acts of Nature
 2. Acts of Man

- **HAZARD** – acts or conditions which increases the likelihood or severity of loss:
 1. Physical Hazards
 2. Moral Hazards

- **LOSS** – the decrease or reduction of value.

Definition of an Insurance Policy

Philippine Insurance Code

Section 49

“The written instrument in which a contract of insurance is set forth is called a **Policy of Insurance.**”

Definition of an Insurance Policy

The **Fire Insurance Policy** is therefore a **Fire Insurance Contract** being a written document stipulating the contractual agreement between the **Insured** and the **Insurer**.

In consideration of a Premium payment (**by the Insured**), the **Insurer** undertakes, subject to certain conditions embodied in the contract, to pay or make good to the other party (Insured), for direct loss or damage to a particular property, caused during a specific period by fire or lightning.

THE FIRE INSURANCE CONTRACT

VIII. CONTROL OF CARRYING OUT THE OBLIGATIONS FROM THE CONTRACT

Article 24
24.1 Control of carrying out the obligations from this Contract includes:
- regular controls by the PMU from article 5, paragraph 5.3 and 5.4 of this Contract and PMU from article 7, paragraph 7.3 through the operational data follow-up and incoming data preparation as well as the follow-up of financial indicators and
- periodically, by an ad-hoc Project Control Commission consisting of the representatives of the HCS (two participants) and ICRC (two participants) by direct checking of the medical, financial and other DOK documentation related to the realization of the Pilot Project.
24.2 The Director of DOK and the ICRC Health Coordinator are jointly nominating the members of the Project Control Commission (four participants) from the previous paragraph.
24.3 The HCS and DOK are obliged to ensure access for the control and checking of the existing documentation to members of the Project Control Commission.
24.4 The Project Control Commission will submit a written report to the Director of HCS, Director of DOK, ICRC Health Coordinator and PMU Program Responsible Coordinator.

IX. OTHER PROVISIONS

Article 25
This Contract is concluded for the year 2003 and will be applied from 01.05.2003 to 30.06.2003 or until the signing of the new contract for the year 2003.

Article 26
26.1 The contracting parties agree to resolve all the disagreements that might arise from this Contract by negotiations in accordance with the regulations related to the issues of health protection and health insurance.
26.2 In case that the disagreement cannot be resolved as in paragraph 1 of this article, the dispute will be referred to the competent court in the Republic of Serbia.

Article 27
27.1 This Contract is made in 4 (four) copies - 2 (two) in English and 2 (two) in Serbian - one copy in English and one copy in Serbian for the each contracting party.
27.2 One photocopy of this contract in the Serbian language will be submitted by the HCS to the HEHBOG, SPK and PMU.

On behalf of the HCS
Dr. Dragan Todor
HCS Director
Dr. Zoran Prokić
DOK Director
Ivan Miroslavović
HCS Signator
Zora Krunic
HCS Assistant Director
Date: 19/05/03

On behalf of the ICRC
Dr. P. Lodi
ICRC Head of Delegation
Dr. Richard Mijuskovic
ICRC Health Coordinator
Date: 19/05/03

Essential Requirements of an Insurance Contract -

Offer and Acceptance -

There must be a meeting of the minds between the parties to the contract.



Essential Requirements of an Insurance Contract -

Competent Parties -

The parties to the contract must be legally qualified.

There must be no misrepresentation or concealments of material facts.



Essential Requirements of an Insurance Contract -

Legal Object -

The subject matter of insurance must be in conformity with the law.



Essential Requirements of an Insurance Contract -

- **Consideration -**

This is known as the “**premium**” which is paid in exchange for the insurance protection.



CHARACTERISTICS

The fire insurance policy, as a contract of insurance, has certain important characteristics:

- **It is a Contract of Indemnity -**

- To compensate the Insured only to the extent of his financial loss.
- Compensation of Loss may be in the form of cash or repair or replacement of damaged insured property to the condition it was at the time of loss.

CHARACTERISTICS

● It is a Personal Contract -

The Character and Reputation of the Named Insured is important.

- Disposal of the insured property to another would not automatically transfer the policy, unless
- With the consent and approval by the Insurer by way of written endorsement.



CHARACTERISTICS

● It is a Contract of Adhesion

Contract conditions are not actually negotiated between the Insured and Insurer.



- Insurer has prepared and established the conditions in the Policy which is presented to the Insured.
- Insured has to “adhere” to said conditions when he accepts the Policy.

CHARACTERISTICS



In view of this characteristic, the Courts have tended to favor the Insured if there is an ambiguity in the Policy conditions which the Insurer has drafted.

IMPORTANT PRINCIPLES



There are certain basic principles which are of particular importance and significance in Fire Insurance.

- **Principle of Utmost Good Faith**
(Uberrimae Fidei)
- **Principle of Insurable Interest**
- **Principle of Proximate Cause**
(Causa Proxima)

Principle of Utmost Good Faith (Uberrimae Fidei)

- It enjoins the parties to the contract to deal with each other **honestly and in good faith**.
- Any breach, such as Misrepresentation and Concealment of material facts, will nullify coverage under the policy.

Principle of Insurable Interest

- A right or relationship to the subject matter of insurance such that in case of loss or damage, the Insured suffers financial loss.
- No indemnification will be made unless there is insurable interest.
- The Limit of Liability is the actual extent of the insured's insurable interest on the insured property.



● Principle of Proximate Cause (Causa Proxima)

The direct and immediate cause that leads to intervening chain of motion causing a loss.

- Losses Proximately Caused by Insured Perils
 - If a Loss caused by Insured Peril and there is no intervening force that may be considered as fresh cause, then the ultimate loss is compensable.
- Intervening Cause That Becomes Proximate
 - There are times when Intervening Cause becomes Proximate Cause and turn the Original Cause to a Remote Cause

Principle of Proximate Cause (Causa Proxima)

Thus, loss or damage due to smoke from a hostile fire, or damage caused by water used to put out a fire are deemed losses due to fire.



Before



After
(Smoke & Water Damage)

Principle of Proximate Cause (Causa Proxima)

On the other hand, if property is damaged by fire set by rioters, the proximate cause would be riot and not fire.



LIMITS OF LIABILITY



LIMITS OF LIABILITY

The indemnity or amount of compensation or payment recoverable for loss or damage under Fire Insurance contract or policy is subject to the following limits of liability:

The sum insured, or

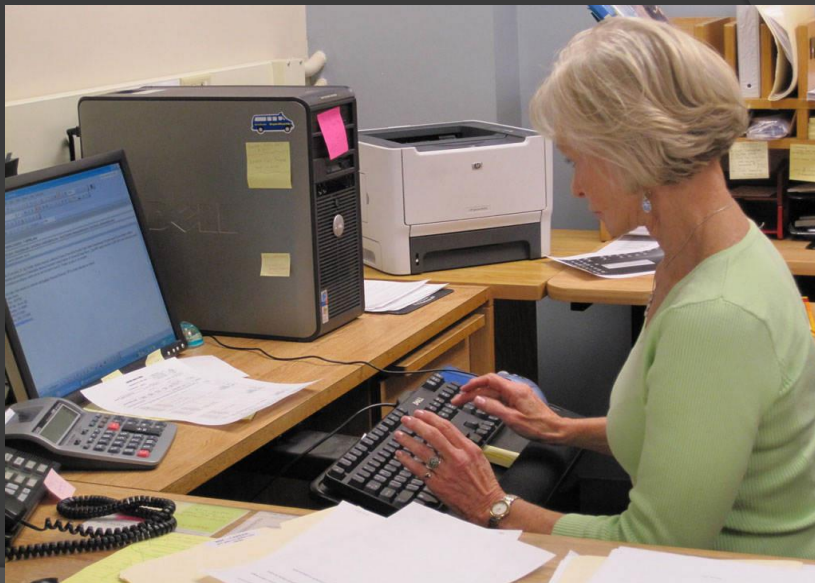
- The **Actual Cash Value** of the insured property, or
- The extent of the Insured's Insurable Interest, whichever is the least.

ACTUAL CASH VALUE (Sound Value or Market Value)

- May be defined as New Replacement Cost less the corresponding Depreciation.
- **Depreciation** is a reduction or diminution of value taking into account Age, Use, and Obsolescence.



THE STANDARD FIRE INSURANCE POLICY



In the Philippines, the Standard Fire Policy form being used since January 1, 1981 contains 29 numbered Conditions.

All non-life insurance companies in the Philippines use the same Standard Fire Insurance Policy.

A Standard Fire Insurance Policy form may be defined as one with uniform language, Parts and Conditions.

The wordings, phraseology and meanings are the same in all the Fire Insurance policies issued by different insurance companies.

- **UNIFORM PARTS -**

The five main parts are all the same in all the Fire Insurance policies:

- 1. The Preamble or Recital Clause**
- 2. The Insuring Agreement or Operative Clause**
- 3. The Policy Schedule**
- 4. The Attestation Clause**
- 5. Policy Conditions**

THE STANDARD FIRE INSURANCE POLICY

The Preamble or Recital Clause

- Name the two parties to the contract.
- Payment of premium.
- Perils of fire or lightning.
- Insured Property and sum insured.

THE STANDARD FIRE INSURANCE POLICY

The Insuring Agreement or Operative Clause

- Mentions the undertaking of the Insurer to pay the Insured.
- The term of the policy subject to premium payment and policy terms and conditions.
- Loss or damage of the insured property due to Fire or Lightning.

THE STANDARD FIRE INSURANCE POLICY

The Policy Schedule

- Also known as Declarations.
- All particulars such as:
 - Name Insured,
 - Address and Location,
 - Sums Insured,
 - Period of the coverage ,
 - Descriptions of interest being insured,
 - Occupancy of interest being insured
 - Boundaries and other exposures,
 - etc.

THE STANDARD FIRE INSURANCE POLICY

The Attestation Clause

- Confirms the authentication and the authorization of the issuance of the policy.
- Signed by authorized official or representative.

THE STANDARD FIRE INSURANCE POLICY

Policy Conditions

- Indicates the Insurer's rights and liabilities , as well as the
- Insured's rights and obligations as stipulated in the 29 Policy Conditions.

THE STANDARD FIRE INSURANCE POLICY

The printed policy conditions consecutively numbered 1 to 29 are the same in all fire policies.

- **Expressed Conditions**
These are explicit conditions printed, typed or written on the policy.
- **Implied Conditions**
These are unspecified conditions generally considered as understood by the contracting parties or required by law.
Ex. : Existence of Property Insured, Insurable Interest

PERILS COVERED

- Basic Perils – **Fire or Lightning**
 - Generally, the perils specifically excluded under **Policy Conditions No. 5** and **No. 7** may not be insurable under the Fire Policy in view of the inherent nature of said perils.
 - Under **Condition No. 6**, some of the excluded perils may be covered by endorsement to the Policy.

THE STANDARD FIRE INSURANCE POLICY

- Other Perils that can be covered:
 - Earthquake Fire
 - Earthquake Shock
 - Typhoon
 - Flood
 - Extended Cover
 - Riot Strike / Malicious Damage
 - Landslide
 - Subsidence
 - Collapse
 - Sprinkler Leakage
 - Broad Water Damage
 - Business Interruption

THE STANDARD FIRE POLICY CONDITIONS

THE STANDARD FIRE POLICY CONDITIONS

- Provides the details that indicate the protection afforded by the Policy
- Stipulates the rights, powers and obligations of the Insured and Insurer.
- Some conditions are especially significant as they are oftentimes not clearly understood by the Insured, and/or not properly explained,
- As such , this gives rise to unnecessary conflicts and problems when a loss occurs and a claim is filed under the Policy.

THE STANDARD FIRE POLICY CONDITIONS

- | | |
|---------------------------------|------------------------|
| 1. Open Policy Clause | - 19 |
| 2. Average Clause | - 20 |
| 3. Contribution Clause | - 18 |
| 4. Subrogation Clause | - 17 |
| 5. Reduction Clause | - 24 |
| 6. Excluded Properties & Perils | - 5, 6, 7 & 8 |
| 7. Suspension of Coverage | - 4 & 9 |
| 8. Forfeiture of Benefits | - 1, 2, 3, 14, 15 & 21 |
| 9. Cancellation of Policy | - 10, 11, & 12 |
| 10. Claims Clause | - 13, 14, & 27 |
| 11. Indemnification Clause | - 16, 22, 23, & 29 |
| 12. Notice and Changes Clause | - 25, 26 & 28 |

THE STANDARD FIRE POLICY CONDITIONS

OPEN POLICY CLAUSE - Condition 19

This is an open policy as defined in Section 60 of the Insurance Code.

In the event of loss, whether total or partial, it is understood that the amount of the loss shall be subject to appraisal and the liability of the company, if established, shall be limited to the actual loss, subject to the applicable terms, conditions, warranties and clauses of this policy, and in no case shall exceed the amount of the policy.

- Loss or damage to insured property is subject to appraisal or adjustment.
- Sum insured indicated on the Policy is only the maximum limit of liability.
- It distinguishes the fire policy from a "Valued Policy".

AVERAGE CLAUSE – Condition 20

“If the property hereby insured shall, at the breaking out of any fire, be collectively of greater value than the sum insured thereon, then the insured shall be considered as being his own insurer for the difference, and shall bear a rateable proportion of the loss accordingly.

Every item, if more than one, of the policy shall be separately subject to this condition”.

- This simply means that when there is underinsurance and there is a partial loss, the insured bears for his own account the amount corresponding to the uninsured portion.
- This will encourage the Insured to secure Insurance at Full Value.

Average Clause

UNDER INSURANCE (Partial Loss) -

Sample : Given Figures

Sound Value (or Replacement Value)	– P 15,000,000.00
Amount required to be Insured	– P 15,000,000.00
Sum Insured	– P 10,000,000.00
Partial Loss or Damage	– P 8,000,000.00

$$\frac{\text{Sum Insured}}{\text{Amount required to be Insured}} \times \text{Loss} = \text{Claim Payable}$$

Average Clause

UNDER INSURANCE (Partial Loss) -

$$\frac{\text{Sum Insured}}{\text{Amount required to be Insured}} \times \text{Loss} = \text{Claim Payable}$$

$$\frac{10,000,000}{15,000,000} \times 8,000,000$$

$$= \text{P } 5,333,333.33 \text{ Claim Payable}$$

Average Clause

UNDER INSURANCE (Total Loss) -

Sample : Given Figures

Sound Value (or Replacement Value)	–	P 15,000,000.00
Amount required to be Insured	–	P 15,000,000.00
Sum Insured	–	P 10,000,000.00
Total Loss or Damage	–	P 15,000,000.00

$$\frac{\text{Sum Insured}}{\text{Amount required to be Insured}} \times \text{Loss} = \text{Claim Payable}$$

Average Clause

UNDER INSURANCE (Total Loss) -

$$\frac{\text{Sum Insured}}{\text{Amount required to be Insured}} \times \text{Loss} = \text{Claim Payable}$$

$$\frac{10,000,000}{15,000,000} \times 15,000,000$$

$$= \text{P } 10,000,000 \text{ claim payable}$$

THE STANDARD FIRE POLICY CONDITIONS

INDEMNITY

The most basic and fundamental principle of property insurance is that of **INDEMNITY**.

- **INDEMNITY** is the payment of a loss by the insurer to the insured, but for no more than what the loss actually is.
- **INDEMNITY** compensates the insured for loss, **but does not allow the insured to make a profit out of the loss.**

THANK YOU.

