

Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 4

**NOTE** : Answer **ALL** Questions.

1. R Ltd. is a public limited company and is engaged in procurement of rice and its exports. In the course of its business, it utilised the godown facilities offered by the port authorities for storing rice bags awaiting shipment. Right from the commencement of its business, it has covered the risks under a fire insurance policy taken from a very reputed public sector general insurance company. The insurer has been servicing the account through one of its development officers. The policy period normally runs between the first of July of one year and the end of June of the subsequent year.

There were cyclonic storms and heavy rains on 22<sup>nd</sup> and 23<sup>rd</sup> July, 2010 resulting in severe flooding of the godowns of the port trust where R Ltd. had stored the rice bags awaiting shipment. On ceasing of the rains on 25<sup>th</sup> July, 2010, R Ltd. found that most of the rice bags stored in the port godowns had either been damaged or washed away. The doors of the godowns had been lifted and carried away by the rainwater and except for some clusters of rice grains found on the floors of the godown here and there, the entire stock of rice had been washed away. The insured immediately lodged a claim with the insurer asking for a compensation in terms of the fire policy.

On examination of the case, the insurance company noticed the following :

The policy was due for renewal on 1<sup>st</sup> July, 2010. A notice for the payment of premium had been issued to the insured and served on it. The insured had drawn a cheque on 28<sup>th</sup> June, 2010 on its bankers for the insurance premium due on the basis of the premium notice and had handed over the cheque to the development officer servicing the amount, on the evening of 30<sup>th</sup> June, 2010. This was duly acknowledged by the development officer, who also issued a cover-note for the oncoming period. The cheque was deposited by the development officer with the insurer's branch to which he was attached on 17<sup>th</sup> July, 2010 when he returned to the headquarters from his official tour. The branch officials deposited the cheque into the insurance company's bank account on 18<sup>th</sup> July, 2010 and the bank credited the account with the premium on 25<sup>th</sup> July, 2010 because of the intervening public and bank

holidays. The regular policy for the year 2010-11 was not issued by the insurance company till the event of loss. The insured had enjoyed the cover with the same insurance company from the year 2003-04 and no major loss claim had been made by R Ltd. so far on the insurance company.

On receipt of the claim papers from R Ltd., the insurance company's claims department made an analysis of the same and sent a reply to R Ltd. rejecting the claim for the following reasons :

- (i) The company was not on cover at the time of the loss, since no premium had been paid by R Ltd.
- (ii) The premium was received on 25<sup>th</sup> July, 2010 after the loss had occurred and hence no insurance policy can be granted.
- (iii) Loss due to floods is not covered under a fire policy.
- (iv) The cover note issued by the development officer did not bind the insurance company.

On receipt of this reply, R Ltd. approached you for advice on the resolution of the dispute. One of the methods suggested by R Ltd. was to proceed against the insurer before the Insurance Ombudsman. R Ltd. also felt that the IRDA could be approached directly for the resolution of the dispute.

Additional facts that may assist in the formation of your views are as follows :

- (a) Goods stored in the godowns were 20,000 tonnes of rice whose cost of acquisition was ₹200 crore. The quantum of storage was supported by independent stock registers maintained by the port authorities.
- (b) The District Collector of the area, who was appointed by the State Government as the Relief Commissioner, certified that all the goods in the godowns were lost in the floods and there existed no salvage.
- (c) The stocks in the godowns carried an insurance cover for ₹250 crore.
- (d) A public sector bank had advanced ₹80 crore against the stock in the godowns and on the date of flood loss, the outstanding loan amount was ₹75 crore. The bank has lodged independently a claim with the insurance company asking the insurer to pay the claim directly to it against the loan outstanding.

: 3 :

In the backdrop of the above information, make an assessment of the situation and give your opinion in detail on the following issues :

(i) Whether a cover for insurance existed on the day of the accident ?

*(10 marks)*

(ii) Whether the claim was covered in terms of a fire policy ? Also indicate what type of losses are not covered under a fire policy ?

*(10 marks)*

(iii) Whether the IRDA can intervene in the matter, on behalf of the insured/bank for the settlement ?

*(10 marks)*

(iv) Whether the insured is entitled to any claim under the policy from the insurer ?

*(5 marks)*

(v) If the claim has arisen, specify the amount of the same.

*(5 marks)*

(vi) Whether the insured company can approach the Insurance Ombudsman for the settlement of the claim ?

*(5 marks)*

(vii) Whether the lender bank has an insurable interest in the property and hence be a party to the claim settlement ?

*(5 marks)*

2. (a) Indicate the pre-conditions that must exist for an effective supervision to enforce the core insurance principles of the International Association of Insurance Supervisors (IAIS).

*(10 marks)*

(b) It is generally believed that an insurance contract wholly and fully handles and eliminates all risks. Do you agree with the statement ? Discuss.

*(10 marks)*

(c) Distinguish between 'insurance contracts' and 'wagering agreements'.

*(10 marks)*

# 343

: 4 :

3. Write a note on warranties in marine insurance.

*(5 marks)*

4. Explain the concept of trust in life policy.

*(5 marks)*

5. How does 'insurance' differ from 'hedging' ?

*(5 marks)*

6. Describe the rules of interpretation of a policy.

*(5 marks)*

—————0—————