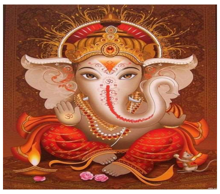

CASE STUDY-DEC 05- LOSS DUE TO SPONTANEOUS CUMBUSTION

***QUESTION**:*

1. *Hari took a fire insurance cover on his stock of oilseeds, oil-cakes, etc., while stored in a godown of Class-I construction, for a sum assured of Rs. 1,50,000 with Zenith General Insurance Co. Ltd.*
2. *The risk was inspected by the insurer's representative. After the inspection, he collected the premium due and issued a cover note. The official receipt for the premium was received after three days by Hari.*
3. *The cover note issued by the insurer's representative indicated that "the stock of oilseeds and oil-cakes, etc. are covered for a period of 12 months effective from 26th February 2015, subject to terms, conditions, exceptions, etc. of the insurer's printed policy against the risk of fire whilst stored in a godown of Class-I construction.*
4. *Despite several written requests and reminders by Hari, the policy document was not issued till the end of May 2015.*
5. *In the meantime, on 10th May 2015, a major fire broke out in the godown damaging a large part of the insured's stock.*
6. *The insurer appointed a licensed surveyor who assessed the loss of oilseeds and oil-cakes to the tune of Rs. 1,15,000.*
7. *He also held that the fire was on account of 'spontaneous combustion'.*
8. *In the course, Hari filed a claim for loss with the insurer.*
9. *Zenith Insurance Co. Ltd. informed him that the fire having occurred due to an excluded peril, viz., spontaneous combustion, no claim would be payable.*

How will you advise Hari to proceed to support his claim? Discuss in your answer, the sanctity of a cover note issued by an insurance company or its representative.

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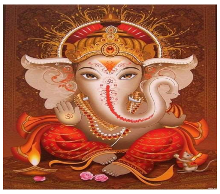

<u>COVER NOTE:</u> A cover note, also known as a binder or a provisional certificate, is a temporary document issued by an insurance company to provide evidence of insurance coverage until the final policy is prepared and delivered to the policyholder. It acts as an interim contract between the insurer and the insured, ensuring that the insured party is protected while the policy details are being finalized.

A cover note is valid for a period of 60 days from the date of issue of the cover note and the insurer shall issue the Certificate of Insurance before the cover note expires.

Purpose of a Cover Note:

1. **Immediate Coverage**: A cover note offers immediate coverage to policyholders, granting them protection against potential risks even before the complete policy documentation is processed. This is particularly crucial in situations where obtaining a policy can take time, such as complex insurance policies or instances where the insurer needs to assess the risks involved.
2. **Legal Compliance:** In many jurisdictions, having a valid insurance policy is a legal requirement for certain activities such as driving a vehicle or running a business. A cover note provides proof of insurance and allows individuals or businesses to comply with legal obligations while waiting for the final policy.

Contents of a Cover Note:

1. **Policy Details:** A cover note contains information about the insured party, including their name, address, and contact details. It also outlines the policy period, which specifies the duration for which the temporary coverage is applicable.
2. **Coverage Summary**: The cover note provides a summary of the insurance coverage, including the type of insurance, limits, deductibles, and any

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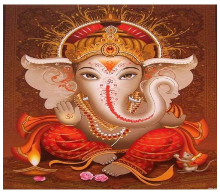

additional features or riders. It gives policyholders a clear understanding of the protection they have during the interim period.

3. **Terms and Conditions**: While not as detailed as the final policy document, a cover note may highlight some key terms and conditions that will apply once the final policy is issued. These may include specific exclusions or limitations that policyholders should be aware of.

Significance of a Cover Note:

1. **Continuity of Protection:** A cover note ensures that policyholders remain protected from potential risks during the transition period between purchasing insurance and receiving the final policy. This uninterrupted coverage is crucial in safeguarding their financial interests and mitigating any losses that may occur.
2. **Proof of Insurance**: A cover note acts as tangible evidence of insurance coverage. It can be presented to relevant authorities, such as traffic police or regulatory bodies, as proof of compliance with legal requirements. This avoids potential penalties or legal complications that could arise in the absence of proof.
3. **Facilitates Business** Transactions: In certain situations, such as securing loans or entering into contracts, having insurance coverage is a prerequisite. A cover note serves as a valid document to fulfil these requirements, allowing individuals or businesses to proceed with their intended transactions without delays.

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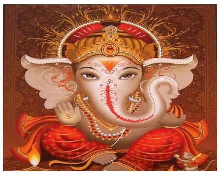

Frequently Asked Questions (FAQs)

Question 1. What is the purpose of a cover note in insurance?

A cover note serves as a temporary proof of insurance coverage until the final policy is issued. It provides immediate protection and ensures continuity of coverage during the transition period.

Question 2. How long is a cover note valid?

The validity of a cover note varies depending on the insurance company and the type of coverage. Generally, cover notes are valid for a specific period, usually ranging from 15 days to 60 days, during which the final policy is prepared and delivered.

Question 3. Can I use a cover note as proof of insurance?
Yes, a cover note is considered a valid document to provide proof of insurance coverage. It can be presented to relevant authorities, such as law enforcement or regulatory bodies, as evidence of compliance with legal requirements.

Question 4. What information is included in a cover note?
A cover note typically includes details such as the insured party's name, address, and contact information. It also outlines the coverage period, policy limits, deductibles, and may highlight important terms and conditions.

Question 5. Can I make changes to my coverage during the cover note period?
Generally, cover notes provide temporary coverage based on the information provided during the application process. However, it's best to consult with your insurance provider to inquire about any possible changes or additions to your coverage during the interim period.

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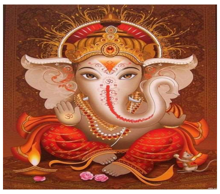

Question 6. Is the coverage provided by a cover note the same as the final policy?
The coverage provided by a cover note is generally similar to the final policy. However, it's important to review the final policy documentation once it is issued to ensure that the coverage and terms align with your expectations and needs.

Question 7. What happens if a claim arises during the cover note period?
If a claim arises during the cover note period, you can typically proceed with filing a claim as you would with a regular policy. The insurance company will assess the claim based on the coverage specified in the cover note and the terms and conditions applicable.

Question 8. Can I renew my insurance based on a cover note?
No, a cover note is only valid for the specified period and is not renewable. Once the cover note expires, it is necessary to have the final policy in place or to renew the policy based on the terms provided by the insurance company.

Question 9. Is a cover note applicable for all types of insurance?
Cover notes are commonly used in various types of insurance, including auto insurance, property insurance, and general liability insurance. However, the availability and applicability of cover notes may vary depending on the insurance company and the specific policy.

Question 10. Is it necessary to keep the cover note after the final policy is issued?
It is advisable to keep a copy of the cover note even after the final policy is issued. It can serve as a reference for the coverage details during the interim period and can be helpful in case of any discrepancies or clarifications that may arise later.

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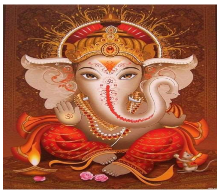

ANSWER: *Since the claim lodged by Mr. Hari has been turned down by Zenith General Insurance Company on the ground that "Spontaneous Combustion" is not covered under a standard fire policy, he can take up the matter with insurance ombudsman of his state and file a complaint with that office.*

The ombudsman is an internal redressal machinery of insurer created by the industry with the backing of the central government. The decision of the ombudsman is binding on the Insurance Company but not the claimant.

The ombudsman would look into the entire matter of issuance of cover note by the insurer without any stipulation and give the benefit to the claimant. The very fact that there was no warranty stipulated in the cover note strengthens the case of the claimant, and benefit of doubt must go in his favour.

If Mr. Hari still does not get justice, then he can approach the District Forum and State Forum for redressal of his grievance.

PLEASE NOTE THAT: *A Cover Note is a temporary risk document issued by the insurer till it is replaced by a stamped policy document. Insurers all over the world honour this document. The cover note describes the risk proposed for insurance and also stipulates conditions which are relevant and necessary.*

In the present case, since no warranty pertaining to "Spontaneous Combustion" being an excluded Peril was incorporated in the Cover note issued by the insurer, he cannot disown his liability under the claim at this stage. The claim will have to be honoured by the insurer.

DISCLAIMER: *the case study presented here is only for sharing information with readers. In case of necessity do consult with professionals.*

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