



Subject: Non - Life Insurance - PPP

Chapter: Product, Underwriting &
Claim settlement 1 -
Marine Insurance

Category: Notes

Marine Insurance

Marine Insurance is a contract whereby the insurer undertakes to indemnify the assured, in manner and to the extent thereby agreed, against marine losses, i.e. the losses incident to marine adventure. It covers the loss or damage of ships, cargo, terminals, and any transport by which the property is transferred, acquired, or held between the points of origin and the final destination.

It indemnifies the assured to the extent of marine losses i.e. the losses incident to marine adventure.

Once the goods are moved out from the warehouse of the seller, they are no longer in custody of the seller or the buyer. During the transit loss can arise from :

- Fire , explosion
- Contact with water
- Breakage
- Accident
- Derailment of conveyance
- Theft
- Pilferage
- Non-delivery

Exposure to these risks and the fact that goods are in possession of a third party enhances the chances of loss.

History of Marine Insurance

The earliest forms of insurance were a primitive form of commercial insurance, especially in regards to shipping goods, since cargo was often lost or damaged or stolen by thieves and pirates. Please earliest methods of reducing risk involved either the pooling of risk or transferring the risk to moneylenders or investors of expeditions.

For millennia, the primary and economical means of transport was to use waterways, but boats carrying cargo were often destroyed in rapids along the rivers. Enough cargo made it through to still make it more economical than land transport, but shippers realized that bad luck could ruin them financially. A primary means of reducing risk to individual shippers was to pool the risk amongst all of them. As early as 3000 BC, Chinese merchants pooled their risk of loss when moving cargo down the rapid Chinese rivers. In 3000 BC, merchants and traders in Sumer and Babylonia pooled their risk to prevent major losses of cargo to thieves and pirates.

The market of marine insurance began in Lloyd's coffeehouse opened by Edward Lloyd around 1688 on Tower Street in London. The establishment was a popular place for sailors, merchants, ship owners and

Lloyd catered to them with reliable shipping news.

As a center of commerce and global trade, Great Britain was a natural place for marine insurance to develop, and one of the major insurers of voyages was Lloyd's of London. Insurance was written by individuals rather than companies where a ship-owner or merchant would publish a sheet of information describing the cargo ship, and its destination and any other pertinent information. The people who accepted part of that risk wrote their names under the description of the risk and the terms in the agreement. This writing under the agreement gave rise to the term **underwriter**, one who selects and rejects risks.

Lloyd's coffeehouse, opened by Edward Lloyd, became the main meeting place because the proprietor manufactured paper, pens, and information regarding shipping available and provided information regarding available shipping, thus becoming Lloyd's of London.

Types of cover

1. **Hull** - covers physical damage to vessels including machinery and fuel but not their cargo. Hull insurance is an insurance policy especially designed for covering ship damage expenses where the 'Hull' refers to the main body of the ship. Hull insurance can be understood like a car insurance, with a difference of being for a water faring vehicle instead of land.

2. **Cargo** - covers physical damage or loss of goods while in transit
Cargo Insurance provides coverage against all risks of physical loss or damage to freight during the shipment from any external cause during shipping, whether by land, sea or air.

Cargo Partial Loss

Where goods delivered damage measure of indemnity is

- Proportion of sum fixed by policy
- Equal to gross sound value less damages value at place of delivery

Legally, all carriers must carry a minimum amount of insurance, known as carrier liability. However, carrier liability provides very limited coverage, and anything from natural disasters to vehicle accidents or even acts of war could damage your cargo. Therefore, shippers can request cargo insurance to protect their goods from loss, damage, or theft while in transit. Generally, goods are insured while being stored and while in transit, until they reach the buyer.

Cargo insurance can be taken for international as well as domestic transportation. At the same time, this is really difficult to standardize and control without the proper cooperation from countries and

states due to the varying nature of this insurance. Under these variations, this insurance can be categorized into following classifications:-

Land Cargo Insurance : This insurance provides coverage for all the land transportations covering trucks and other small utility vehicles. The coverage aspects are theft, collusion damages and other related risks. This insurance is domestic in nature and normally, operates within the boundaries of the nation.

Marine Cargo Insurance : This insurance covers transportation carried out either in sea or by air. Here, means of transportation and goods are covered from damage due to cargo loading/unloading, weather contingencies, piracies and other relevant issues. Mostly, this insurance covers international transportation. Under these insurances, there are some policies which can help you in understanding the concept of cargo insurance in a profound manner. These policies are:-

- **Open Cover Cargo Policies** : When insurance holder opts for coverage against various consignments, then open cover cargo policies get activated. These policies are segmented in two categories namely renewable policy and permanent policy. Renewable policy is required for a particular value requiring renewal after policy expiration. Most of the single trip or voyages fall under this category. Permanent policy can be drawn up for a decided time period permitting countless shipments in that period.
- **Specific Cargo Policies** : When a company approaches an insurance company or broker for insuring a particular consignment, then it can fall under the category of specific cargo policies. These policies are also termed as voyage policies because only shipments are covered under them.
- **Contingency Insurance Policy** : There are certain cases where customer, not the seller is responsible for insuring the goods against loss or damage. There are perils associated with it if goods get damaged during transit and customer refuses to accept them. In few cases, some customers do not insure the goods and tend to avoid the liability. Under such circumstances, affected sellers can seek rectification with the help of the legal system. This can be very costly for them and sometimes, they may lose the case. Therefore, sellers are advised to go for contingency insurance which have a very less premium rate. For testing and verification, sellers need not tell about it to their customers.

Benefits of Cargo Insurance

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Cargo insurance covers transits carried out in water, air, road, rail, registered post parcel and courier. Following aspects are covered under the benefits of this insurance:

All Risk Coverage

This coverage provides extensive protection against damage or loss due to external factors. Though, this is called all risk coverage but still, people should know the aspects included and excluded in the policy. Under all risk coverage, included aspects are:

- Damages due to inappropriate packing
- Infestation
- Cargo abandonment
- Customs rejection
- Employee's dishonesty

Free From Particular Average Coverage (maritime insurance related)

"Free of particular average" coverage clause excludes coverage partial losses to the cargo or to the hull except those resulting from stranding, sinking, burning, or collision. Another important aspect of this clause is that the shipper does not pay for minor losses (pre-decided percentage) and is only held liable in case of significant losses to the cargo. This insurance coverage belongs to special category and covers particular perils only. There is difference in coverage depending upon the storage location of the cargo. In this policy, following perils are included:-

- Collision
- Heavy weather
- Sinking
- Derailment
- Non-delivery
- Theft
- Fire
- Earthquake

General Average Coverage

This coverage is basic requirement in the marine cargo transits. More specifically, it covers only partial loss occurred to the shipment. It requires all the other cargo holding owners on the ship to pay compensation to the periled cargo owner.

Warehouse to Warehouse Coverage

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This coverage is applicable when shipment is unloaded from the ship and it gets transported to the customer's warehouse. Insurance companies are very particular about compensating only the insurance holder's cargo, not other owners' cargos.

3. **Voyage** – provides coverage for a specific voyage . It covers the cargo and not the ship.
4. **Freight** – covers the loss of freight suffered by the vessel if the ship-owner cannot complete his contract.
5. **Liability** - if the vessel collides with another vessel and there is damage, the liability suffered by the owner of the vessel for such collision is covered. The ship may be exposed to crash, collision or piracy attack. Under such situations, the valuable cargo is exposed to a high risk. Moreover, the life of crew members and others on the ship is also in danger. The appropriate liability insurance indemnifies the ship owners out of any such liabilities due to events not under his control.

Types of marine insurance policy

- **Voyage policy**

This policy gives more importance to the voyage. A voyage policy is that kind of marine insurance that is valid for a particular voyage. It covers the risk from the port of departure up to the port of destination. This type of policy is considered more useful for cargo. The insurance company give indemnity for loss/damage of any property of the insured during the voyage. The liability of the insurer continues during the landing and re-shipping of the goods. The policy ends when the ship reaches the port of arrival.

- **Time Policy**

The policy which is issued for a fixed period of time is known as time policy. A marine insurance policy is valid for a specified time period generally valid for a year. All the marine perils during tht period are insured. This type of policy is suitable for full insurance. The policy is more commonly used for hull insurance than for cargo insurance. The ship is insured for a fixed period irrespective of voyages.

- **Mixed Policy:** A marine insurance policy which offers a client the benefit of both time and voyage policy is recognized as a mixed policy.
- **Open (or) Unvalued Policy:** In this type of marine insurance policy, the value of the cargo and consignment is not put down in the policy beforehand. Therefore reimbursement is done only after the loss of the cargo and consignment is inspected and valued.

- **Valued Policy:** A valued marine insurance policy is the opposite of an open marine insurance policy. In this type of policy, the value of the cargo and consignment is ascertained and is mentioned in the policy document beforehand thus making clear about the value of the reimbursements in case of any loss to the cargo and consignment.
- **Port Risk Policy:** This kind of marine insurance policy is taken out in order to ensure the safety of the ship while it is stationed in a port.
- **Wager Policy:** A wager policy is one where there are no fixed terms for reimbursements mentioned. If the insurance company finds the damages worth the claim then the reimbursements are provided, else there is no compensation offered. Also, it has to be noted that a wager policy is not a written insurance policy and as such is not valid in a court of law.
- **Floating Policy:** A marine insurance policy where only the amount of claim is specified and all other details are omitted till the time the ship embarks on its journey, is known as a floating policy. For clients who undertake frequent trips of cargo transportation through waters, this is the most ideal and feasible marine insurance policy.
- **Single Vessel Policy:** This policy is suitable for small shipowner having only one ship or having one ship in different fleets. It covers the risk of one vessel of the insured.
- **Fleet Policy:** In this policy, several ships belonging to one owner are insured under the same policy.
- **Block Policy:** This policy also comes under maritime insurance to protect the cargo owner against damage or loss of cargo in all modes of transport through which his/her cargo is carried i.e. covering all the risks of rail, road, and sea transport.

Underwriting

In a slip form the following details are submitted to the underwriter,

- (i) names and brief details of vessels covered
- (ii) value of vessels
- (iii) periods of cover
- (iv) deductions for brokerage, etc ...

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- (v) class and type of cover
- (vi) general conditions

Insurance factors

- i) Past claims experience
- ii) Conditions of Insurance i.e. whether Full Risks, Total Loss Only etc., and size of deductibles.
- iii) Insured value Unduly high values on old vessels in shipping recession would be avoided as would values which appear too low in relation to similar vessels. An alternative course in the latter situation is to insert a higher valuation for the purposes of constructive total loss.

Other Factors include

- i) Trade routes and limits
- ii) Cargo carried
- iii) Management quality and ownership

Marine Stock Throughout Policy

Marine Stock throughout policy (STP) is the process of insuring both stock and transit/ inventory exposures under a single policy to ensure seamless protection to the assured on a worldwide basis.

STP is suitable for organizations that source raw materials or semi finished goods for further value addition. These organizations then store and distribute finished goods.

Raw materials, work in progress & finished goods that are in transit. All locations are covered such as assureds' factory/ jobs worker/ sub-contractors/ warehouses when cargoes are not in course of transit within the meaning of marine insurance.

STP is popularly known as 'Cradle to Grave' coverage. It is simply to have a single policy against multiple marine and property policies.

Claim Process

- In case of loss or damage to the cargo or the ship, you need to immediately inform the insurance provider.
- A surveyor will assess the damage or loss mentioned.
- All the proofs and witnesses need to be submitted along with the duly filled in claim form.

- For a missing package, the insured must lodge file a monetary claim with the insurance provider and get an acknowledgement for it.
- If the provider finds the case fit, it would approve the claim, else it would reject it
- In case you are not satisfied with the case, you can approach the court of law.
- The time limit for filing the claim is one year from the date of goods discharge, which can further change as per the situation and the conditions specified by the insurer.

Documents Required for Claim Process

To make the claims under marine insurance and be able to reap the benefits, the correct documents should be submitted. In case of any lapse, there is a chance of the risk being rejected. Some of the documents are:

- Duly filled in claim form
- Original insurance certificate with the policy number
- Copy of Billing Lading
- Survey report or missing certificate
- Original invoice, packing list, shipping specification
- Copies of correspondence exchanged

Exclusions

Marine insurance has various kinds of coverage for the benefit of all. However, the policy does not cover certain situations, also called exclusions. Some of these cases are:

- Wilful, planned or intentional misconduct
- Strike, rioting, war
- Poor packaging quality of the cargo
- Delays
- General leakage or wear and tear of the cargo
- Financial distress or insolvency of the shipping line
- Removal of wreck