

## LESSON NINETEEN

### MARINE INSURANCE

**Insurance** is a means of protection against *loss*, whereby the cost of the loss, which would otherwise fall upon the owners, is taken over by the **insurer**.

The document embodying the contract of insurance is called a policy. An **Insurance Policy** is a written contract whereby the insurer (an insurance company), on the basis of an agreed payment termed the **premium**, undertakes to make good to the insured, any loss or damage to the property specified therein. The document is signed by the insurer only.

#### Supply the missing terms:

Insurance is a means of protection against \_\_\_\_\_, whereby the cost of the loss, which would otherwise \_\_\_\_\_ upon the owners, is taken over by the \_\_\_\_\_.

The document embodying the contract of insurance is called a \_\_\_\_\_. An \_\_\_\_\_ Policy is a written contract whereby the insurer (an insurance \_\_\_\_\_), on the basis of an agreed payment termed the \_\_\_\_\_, undertakes to make \_\_\_\_\_ to the insured, any \_\_\_\_\_ or damage to the property specified therein. The document is \_\_\_\_\_ by the insurer only.

#### Complete the sentences below:

- Insurance is a means of ... ..
- In insurance the cost of the loss is taken over ... ..
- Otherwise the cost of the loss would fall ... ..
- The policy is a document ... ..
- An Insurance Policy is a written contract where
- the insurer undertakes to make ... ..any ... ..
- The loss is made good to ... .. on the basis of ... ..
- The premium is ... ..

**Marine Insurance** is the insurance of interests (property and earnings) that may be imperilled in a **maritime adventure**. Goods are as a rule insured against various risks from the moment they leave the suppliers' storehouses until they enter the storehouses of the consignees.

Ships also are insured the moment they start being built up to the moment when they are put out of commission.

**Answer the questions below:**

- What is insured in marine insurance?: ... and ...
- Why must these be insured?
- Give another word for '*imperilled*': ...
- What period is covered by insurance?
- How long are ships covered by the insurance?
- Who are the parties to the policy?

**Supply the missing form of the verb (shown in brackets) and put it in the right place in the sentence:**

Marine Insurance is the insurance of interests that may be in a maritime adventure (*imperil*). The interests property and earnings (*include*). Goods are as a rule against various risks (*insure*) from the moment they the suppliers' storehouses until they the storehouses of the consignees (*leave, enter*).

Ships also are insured the moment they start being (build) up to the moment when they are out of commission (*put*).

In basic terms there are three main **types of marine insurance**:

- **Hull and machinery,**
- **Cargo insurance, and**
- **P&I insurance.**

### 1. HULL AND MACHINERY INSURANCE

Hull and machinery insurance is to protect the shipowner's investment in the ship. It is basically a property insurance which covers the ship itself, the machinery and equipment. The owner will be protected for losses caused by loss of or damage to the ship and its equipment. Loss of time following damage to the ship is covered under Loss of Hire insurance.

Furthermore, the insurance covers some liabilities, normally collision liability with another ship (known as RDC – “Running Down Clause”) and sometimes also liability for colliding with other objects than another ship (known as FFO - “Fixed and Floating Objects). Since the conditions vary, it is recommended that the Master finds out how the insurance is placed for the ship. Very often these liabilities are handled by the owner's P&I club. The third part of the insurance is cover for salvage and general average contributions.

Typical hull and machinery claims include:

- Total loss of the ship
- Damage to the ship, engines and equipment
- Explosions and fires

- Groundings – damage to the ship, salvage of the ship and possible contribution in general average
- Collisions – damage sustained to the ship and sometimes also liability towards the other ship (RDC)
- Striking other objects – damage inflicted to own ship and sometimes also liability towards the owners of the other object (FFO)

The insurers will pay the shipowner for the cost of repairs to the ship after the damage has been surveyed and tenders from repair yards submitted. The shipowner will, however, have an agreed amount referred to as the “deductible” which has to be paid by him before a claim against his insurance policy is submitted. For example, if the deductible is USD 100,000 and a claim for repairs is USD 300,000, the insurers will compensate the owner for USD 200,000. Hull and machinery cover is often arranged and placed in the insurance market by a professional insurance broker.

**War Insurance.** The Hull and Machinery, and most other marine insurance covers, exclude any loss, damage or liability due to war or warlike situations (i.e. civil commotion, terrorism). The war cover has separate trading limits (called “Listed Areas”) where trading may be restricted or subject to additional premium.

**Loss of Hire Insurance.** To protect a loss of a charter hire or freight income many owners elect to purchase a loss of hire cover. Depending on the conditions, the cover may include slow steaming as a result of a physical damage to the ship. The cover may also include time lost due to deviation to a repair yard. Correct and accurate log entries are therefore important in such situations.

## 2. CARGO INSURANCE

The owners of cargo, which is to be transported by sea, usually cover their financial exposure against loss of, or damage to cargo for a declared value. Cargo insurance is provided by the Syndicates at Lloyd’s but more commonly by professional insurance companies around the world. They keep records of their losses and use this information to help them calculate premiums for insurance of certain types of cargo in varying kinds of marine transportation, i.e. in bulk, packaged, containerised, refrigerated, chilled, in tanks etc. The cargo insurer will compensate the owner of the cargo for any loss or damage to the cargo. Thereafter they may claim compensation for their loss from the carriers of the cargo.

### *Supply the missing term*

#### HULL AND MACHINERY INSURANCE

Hull and machinery insurance is to protect the \_\_\_\_\_ investment in the ship. It is basically a \_\_\_\_\_ insurance which covers the ship itself, the machinery and equipment. The owner will be protected for \_\_\_\_\_ caused by loss of or damage to the ship and its equipment. Loss of time following damage to the ship is covered under \_\_\_\_\_ insurance.

Furthermore, the insurance covers some \_\_\_\_\_, normally collision liability with another ship (known as RDC – “Running Down Clause”) and sometimes also liability for \_\_\_\_\_ other objects than another ship (known as FFO - “Fixed and Floating Objects). Since the conditions vary, it is recommended that the Master finds out how the insurance is placed for the ship.

Typical hull and machinery claims include:

- \_\_\_\_\_ of the ship

- \_\_\_\_\_ to the ship, engines and equipment
- \_\_\_\_\_ and fires
- \_\_\_\_\_ – damage to the ship, salvage of the ship and possible contribution in general average
- \_\_\_\_\_ – damage sustained to the ship and sometimes also liability towards the other ship (RDC)
- \_\_\_\_\_ other objects – damage inflicted to own ship and sometimes also liability towards the owners of the other object (FFO)

The insurers will pay the shipowner for the cost of \_\_\_\_\_ to the ship after the damage has been \_\_\_\_\_ and tenders from repair yards submitted. The shipowner will, however, have an agreed amount referred to as the “deductible” which has to be paid by him before a \_\_\_\_\_ against his insurance policy is submitted. For example, if the \_\_\_\_\_ is USD 100,000 and a claim for repairs is USD 300,000, the insurers will compensate the \_\_\_\_\_ for USD 200,000. Hull and machinery cover is often arranged and placed in the insurance market by a professional insurance \_\_\_\_\_.

### **Supply the missing verb**

Hull and machinery insurance is to \_\_\_\_\_ the shipowner’s investment in the ship. It is basically a property insurance which \_\_\_\_\_ the ship itself, the machinery and equipment. The owner will be protected for losses \_\_\_\_\_ by loss of or damage to the ship and its equipment. Loss of time following damage to the ship \_\_\_\_\_ under Loss of Hire insurance.

Furthermore, the insurance \_\_\_\_\_ some liabilities, normally collision liability with another ship (known as RDC – “Running Down Clause”) and sometimes also liability for colliding with other objects than another ship (known as FFO - “Fixed and Floating Objects”). Since the conditions vary, it is recommended that the Master \_\_\_\_\_ how the insurance is \_\_\_\_\_ for the ship. Very often these liabilities are \_\_\_\_\_ by the owner’s P&I club.

Typical hull and machinery claims \_\_\_\_\_:

- Total loss of the ship
- Damage to the ship, engines and equipment
- Explosions and fires
- Groundings – damage to the ship, salvage of the ship and possible contribution in general average
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The insurers will \_\_\_\_\_ the shipowner for the cost of repairs to the ship after the damage has been \_\_\_\_\_ and tenders from repair yards \_\_\_\_\_. The shipowner will, however, have an agreed amount referred to as the “deductible” which has to be paid by him before a claim against his insurance policy is \_\_\_\_\_. For example, if the deductible is USD 100,000 and a claim for repairs is USD 300,000, the insurers will \_\_\_\_\_ the owner for USD 200,000. Hull and machinery cover is often \_\_\_\_\_ and placed in the insurance market by a professional insurance broker.

**Complete the sentences below:**

- Hull and machinery insurance is to protect .....
- It is basically a property insurance which covers the ship itself, .....
- The owner will be protected for losses caused by .....
- Loss of time ..... is covered under Loss of Hire insurance.
  
- Furthermore, the insurance covers some liabilities, normally .....
- (known as RDC – “Running Down Clause”) and sometimes also liability for ..... (known as FFO - “Fixed and Floating Objects).
- Very often these liabilities are handled by .....
  
- Typical hull and machinery claims include:
  - Total loss of the ship
  - Damage to .....
  - Explosions .....
  - Groundings – damage to the ship, salvage of the ship and .....
  - Collisions – ..... and sometimes also ..... (RDC)
  - ..... – damage inflicted to own ship and sometimes also liability towards the owners of the other object (FFO)
  
- The insurers will pay the shipowner for the cost of repairs to the ship after ..... and tenders .....
- The shipowner will, however, have an agreed amount ..... the “deductible” which has to be paid by him before .....
- For example, if the deductible is USD 100,000 and a claim for repairs is USD 300,000, the insurers will ..... USD 200,000.
- Hull and machinery cover is often arranged and placed in the insurance market by .....

***Cloze exercise – fill in every fifth word of the text below:***

**CARGO INSURANCE**

The owners of cargo, \_\_\_\_\_ is to be transported \_\_\_\_\_ sea, usually cover their \_\_\_\_\_ exposure against loss of, \_\_\_\_\_ damage to cargo for \_\_\_\_\_ declared value. Cargo \_\_\_\_\_ is provided by the \_\_\_\_\_ at Lloyd’s but more \_\_\_\_\_ by professional insurance companies \_\_\_\_\_ the world. They keep \_\_\_\_\_ of their losses and \_\_\_\_\_ this information to help \_\_\_\_\_ calculate premiums for insurance \_\_\_\_\_ certain types of cargo \_\_\_\_\_ varying kinds of marine \_\_\_\_\_ transportation, i.e. in bulk, \_\_\_\_\_ packaged, containerised, refrigerated, chilled, \_\_\_\_\_ tanks etc. The cargo \_\_\_\_\_ will compensate the owner \_\_\_\_\_ the cargo for any \_\_\_\_\_ or damage to the \_\_\_\_\_ cargo. Thereafter they may \_\_\_\_\_ compensation for their loss \_\_\_\_\_ the carriers of the cargo.



**Risk** covered by Marine Insurance are:

- 1.) **Total loss**: a loss that makes the *property valueless* to the insured. Total loss may be:
  - a) actual total loss, where the subject-matter insured is destroyed or so damaged as to *cease* to be a thing of the kind insured. Examples: a vessel posted “as missing” or hides so damaged as to become putrid and therefore valueless as hides;
  - b) constructive total loss occurs when the subject-matter insured is *reasonably abandoned* on account of its total loss appearing to be unavoidable, or because it could not be preserved from actual loss without an expenditure which would exceed its value when preserved.
  
- 2.) **Particular average** - a loss less than total to cargo or ship - signifies damages or a *partial loss* sustained by ship, goods or freight through some *accidental* cause. Such damage occurs, for instance, if crated bicycles are corroded by sea water or if tobacco becomes soaked with sea water.

**Choose the right word:**

Particular average - a *sum/loss/profit* less than total to cargo or ship - signifies damages or a partial loss *suffered/covered/sustained* by ship, goods or freight through some *incidental/accidental/casual* cause. Such damage *comes/appears/occurs*, for instance, if crated bicycles are corroded by sea water or if tobacco becomes soaked with sea water.

- 3.) **General average** consists of a *voluntary* sacrifice or of extraordinary expenses, for the common safety of the adventure.

**Supply the missing adjectives:**

- 1.) Total loss: a loss that makes the property \_\_\_\_\_ to the insured. Total loss may be:
  - c) actual total loss, where the subject-matter insured is \_\_\_\_\_ or so damaged as to cease to be a thing of the kind \_\_\_\_\_. Examples: a vessel posted “as missing” or hides so damaged as to become \_\_\_\_\_ and therefore valueless as hides;
  - d) \_\_\_\_\_ total loss occurs when the subject-matter insured is reasonably \_\_\_\_\_ on account of its total loss appearing to be \_\_\_\_\_, or because it could not be preserved from \_\_\_\_\_ loss without an expenditure which would exceed its value when preserved.

**Complete the sentences below:**

- The risks covered by marine insurance are: ... ..
- Total loss can be divided into: ... ..
- In actual total loss the subject-matter insured is destroyed or so damaged as to ... ..
- constructive total loss occurs when the subject-matter insured is reasonably abandoned because ..., or because it could not be preserved from actual loss without ... ..
- Particular average is a loss less than ... ..
- It applies to damages or a partial loss ..... by ship, goods or freight through some ... ..

- General average consists of a ... .. or of extraordinary expenses, for ... ..

## Claims

When a loss occurs, the insured must notify the insurers and take steps to save as much as possible of the objects insured. Moreover, the insured must call in a surveyor to examine the damaged goods and issue a survey report, stating the cause and extent of the damage, usually in percentages.

At the same time the insured sends formal notice of the damage (a letter of protest) to the Owner in order to reserve for himself or his underwriters the right to sue him for the damage.

If the loss is recoverable under his policy, the insured files a note of claim against the insurer supported by the following principal documents:

- A copy of the Insurance Policy (to prove that the goods were insured)
- A copy of the Bill of Lading (to prove that the goods were shipped)
- A copy of the Survey Report (to prove that the goods were damaged)
- The letter of protest sent to the owner (to prove that he has reserved for himself and the insurer the right to sue the carrier)
- The invoice
- A claim release and discharge.

**Put the chunks of the sentences in the correct order so that it makes sense:**

to save as much as possible of the objects insured When a loss occurs and take steps the insured must notify the insurers.

- to examine the damaged goods moreover, a surveyor the insured must call in
- issue a survey report the insured must also usually in percentages stating the cause and extent of the damage
- to the Owner at the same time the insured sends formal notice of the damage (a letter of protest) the right to sue him for the damage the insured sends in order to reserve for himself or his underwriters

## QUESTIONS

1. What is the Insurance Policy?
2. What is insured in marine insurance?
3. What period does the insurance of goods in transport cover?
4. How long are ships generally insured?
5. What are the risks covered by marine insurance?
6. Give some examples of “actual total loss”.
7. When does the “constructive total loss” occur?
8. What are the losses referred to as Particular Average?
9. What does General Average consist of?
10. Explain the procedure following a loss, i.e. an accident at sea? The duties of the insured and the insurer.
11. What are the documents to be presented along with a claim against the insurer?

## EXERCISES

### I COMPREHENSION AND VOCABULARY

1. Fill in the blank spaces with the words from the list below: (**PREMIUM, ACTUAL TOTAL LOSS, UNDERWRITERS, BROKER, LLOYD'S, PERILS, POLICY, INSURER, INSURANCE** )

1. The most famous insurance market in the world, \_\_\_\_\_ of London, has many aspects. It is a society of \_\_\_\_\_, a corporation, a world center of marine intelligence, and a specialist publishing house for maritime and legal affairs.
2. In general practice the insured does not deal directly with the underwriters, but negotiates through an insurance\_\_\_\_\_.
3. When the subject-matter of \_\_\_\_\_ is destroyed or so damaged that it cannot be considered a thing of the kind insured, such a loss is defined as \_\_\_\_\_.
4. The insured pays a sum of money to the underwriter known as \_\_\_\_\_.
5. Maritime \_\_\_\_\_ include fire, war, capture, jettison, barratry, etc.
6. The party that undertakes to indemnify the insured under an insurance policy is called the or \_\_\_\_\_.
7. The Insurance \_\_\_\_\_ is a written document of contract where the underwriter undertakes to indemnify the insured for the loss or damage up to a certain limit.

2. State which of the following terms in brackets are defined below: (*ACTUAL TOTAL LOSS, CARGO OUTTURN REPORT, PARTICULAR AVERAGE, INSURANCE BROKER, GENERAL AVERAGE, MARITIME PERILS, CONSTRUCTIVE TOTAL LOSS, UNDERWRITER, POLICY* )

1. A right claimed by the assured for the property lost, where recovery is unlikely: \_\_\_\_\_.
2. One who agrees to compensate another person for loss from an insured peril in consideration of payment of a premium: \_\_\_\_\_.
3. Kind of risk where the property has been completely destroyed, a missing ship for example: \_\_\_\_\_.
4. A contract of insurance: \_\_\_\_\_.
5. A hazard or risk at sea: \_\_\_\_\_.
6. An accidental loss to the ship or cargo or freight: \_\_\_\_\_.
7. A voluntary sacrifice or extraordinary expenses for the common safety of a maritime adventure: \_\_\_\_\_.
8. Report of the quantity of cargo discharged from a ship: \_\_\_\_\_.
9. An intermediary who negotiates insurance contracts with the underwriters on behalf of the shipowner, i.e. the assured: \_\_\_\_\_.

3. Supply the missing word from the list below: (**SHIPMENT, PRINCIPAL, COMMENTS, BILL OF LADING, DELIVERY, DAMAGE** )

*LETTER of the Receivers (Forwarders) to the Ship Agent concerning loss of and damage to cargo:*

Re: bags ....., B/L .....  
Ex MV ..... from ....., dated .....

On taking \_\_\_\_\_ of the above mentioned the following remarks were made: “112 bags torn, stained, slack, part of contents missing”.

For this shipment we possess a clean \_\_\_\_\_ and on behalf of our \_\_\_\_\_ we must hold you responsible for this \_\_\_\_\_ and shortage.

While awaiting your \_\_\_\_\_ we remain,

Yours truly, ..... (International Forwarders)

## II GRAMMAR

1. Supply the right form of the verb in the order of appearance: BE, TAKE, SEE, BREAK, BE, BE, PUT, DAMAGE, DO, ESTIMATE, DESTROY, INCLUDE, BE, ARRANGE

MASTER: Ah! Good morning, Agent. I \_\_\_\_\_ glad to see you. \_\_\_\_\_ a seat.

AGENT: What is it you wanted to \_\_\_\_\_ me about?

MASTER: You are aware of a small fire which \_\_\_\_\_ out while you were away, \_\_\_\_\_ you?

AGENT: Yes, I am. What \_\_\_\_\_ the cause of the fire?

MASTER: A short circuit in the electrical wiring. The fire \_\_\_\_\_ under control immediately but a certain number of packages \_\_\_\_\_ or destroyed by the fire and heat.

AGENT: \_\_\_\_\_ you expect great losses?

MASTER: The losses are \_\_\_\_\_ at \$ 13,000. Here is the list of what was damaged or \_\_\_\_\_. As eventual loss \_\_\_\_\_ in the Insurance Policy, I \_\_\_\_\_ most grateful if you will for the insurers to visit our ship as soon as possible.

2. Supply the missing prepositions and conjunctions (kind of the latter indicated in brackets):

AGENT: Who underwrote the Policy? Lloyd's wasn't it?

MASTER: Yes, we're insured \_\_\_\_\_ Lloyd's underwriters. Please make the necessary arrangements \_\_\_\_\_ a quick settlement \_\_\_\_\_ our insurance claim \_\_\_\_\_ (result) we could leave \_\_\_\_\_ delay.

AGENT: \_\_\_\_\_ course, Master, I'll go out \_\_\_\_\_ (purpose) get in touch \_\_\_\_\_ the underwriters and shall try to arrange that visit.

MASTER: The telephone is \_\_\_\_\_ at the gangway.

AGENT: Well, Master, I have spoken \_\_\_\_\_ the underwriters. They seem willing \_\_\_\_\_ pay damages \_\_\_\_\_ (contrast, restriction) first they will have an adjuster visit your ship \_\_\_\_\_ (purpose) carry out an inspection and estimate the value \_\_\_\_\_ the damaged or destroyed goods. As you know, the underwriters employ a firm \_\_\_\_\_ adjusters (relative) job is to assess the loss or damage.

MASTER: When is the adjuster likely to arrive?

AGENT: Late \_\_\_\_\_ the afternoon, I think.

MASTER: I would like you to be here \_\_\_\_\_ (time) the adjuster comes.

AGENT: I'll do my best to be \_\_\_\_\_ time. I hope I'll manage it. Unfortunately, I have another insurance claim to deal \_\_\_\_\_.

### III TRANSLATION

1. Partikularna havarija je gubitak nastao iz sasvim slučajnih razloga (accidental), kao što su nasukanje, požar, sudar, itd.
2. U partikularnoj havariji gubitak snosi (bear) vlasnik oštećene imovine (property), npr. broda ili tereta.
3. Partikularna havarija stoga predstavlja slučajan gubitak, koji se tiče (concern) samo vlasnika oštećene imovine.
4. Generalna havarija je gubitak koji je nastao (incur) namjerno ili dobrovoljno u vrijeme ugrožene (peril) sigurnosti pomorskog pothvata (adventure).
5. U generalnoj havariji učestvuju brod, teret i vozarina.
6. Kada se u slučaju generalne havarije iskrcaj završi, primalac sastavlja (draw up) Izvještaj o iskrcanom teretu (Outturn Report).
7. Izvještaj o iskrcanom teretu pokazuje (show) količinu iskrcane robe i njeno stanje. Sastavlja se na osnovi brojačkih listića.
8. Ako izvještaj potpisuje zapovjednik ili Prvi časnik palube bez primjedaba (qualification), on može služiti (stand) umjesto zajedničkog pregleda (joint survey).
9. Kada primalac podnosi unaprijed zahtjev/reklamaciju (lodge a claim) on najčešće unaprijed zna da brod neće prihvatiti nikakvu odgovornost (liability).
10. Brod mora dokazati (prove) osiguratelju da se ne snosi odgovornost za štetu ili gubitak (be liable for).