The Sri Lanka Insurance Institute

IMPORTANT ASPECTS
OF
MARINE INSURANCE

(ADVANCE COURSE IN GI - U/W)

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Marine Insurance is considered,

A **Financial Protection** system against **Maritime Perils** due to **Accidental or Fortuitous** events.

- Perils of the sea – Eg: Damages due to rough sea conditions such as entry of sea water to the hatches or the holds.
- Perils on the sea – Eg: Breakage to goods, Fire damages, Collisions, Pirate attacks.

The Requirement for Marine Insurance

Protection - As in the case of all other classes of insurance, marine insurance also provides protection.

Compliance of 'Terms of Sale' –
Most contracts of sale require that the goods must be covered, either by the seller or the buyer, against loss or damage during the maritime venture.

It depends on the terms of the sale contract. A contract of sale involves mainly a seller and a buyer, apart from other associated parties like carriers, banks, freight forwarders, clearing agents, etc.

CLASIFICATION OF MARINE INSURANCE

- **MARINE INSURANCE**
  - **CARGO INSURANCE**
  - **HULL INSURANCE**
  - **MARINE LIABILITY**

Marine Hull Insurance

- Highly specialized branch
- Offers protection against risks of loss/damage to hull and machinery of the ship
- There are different types of covers available for different vessel types:

Cargo vessels	Water Barges
Tankers	Fishing Boats
Barges	Ship Builders Risks
Speed Boats	Ship Repairs
Pleasure Crafts	Tug Boats
Wave Runners	

MARINE LIABILITY INSURANCE

Marine Liability is insurance for liability or property damages to a third party, while engaged in marine related operations.

Liability insurance provides protection against

Charterer’s liability,
Ship owner’s liability, and
Freight Forwarders liability

Marine Cargo Insurance

Any thing (other than human being) that is carried by any mode of transport can be termed as ‘Cargo’

As long as cargo is moved from one place to another and there is a contract of carriage it can be insured under Marine Cargo Insurance

Insurance against loss of or damage to cargo occurring during the course of its transportation is Marine Cargo Insurance

*Could be more appropriately be termed as '*transportation insurance*’ since it covers cargo carried by many means.

HISTORY

- The Father of Insurance
- 13th Century – Italian ‘Lombard”
- 17th Century – ‘Lloyds’

TYPES OF POLICIES

- Voyage Policy.
- Floating Policy / Open Policy.
- Open Cover.

Voyage Policy

Coverage is for a single trip, and usually protects only the cargo. (Not the ship).

Coverage is from the Supplier's warehouse to the Buyer's warehouse. It would be as named in the policy the policy.

Floating Policy / Open Policy

- Long term cargo insurance contract (Usually, this policy is for a 12 month period)
- This save merchants the inconvenience of effecting individual insurance policies for every trip.
- Sum insured is based on the expected turn-over of the items to be insured and is estimated by the assured at the inception of the policy.
- Annual premium is based on a rate calculated on Estimated Annual Turnover. A provisional premium is collected at the inception.
- Premium can be adjusted according to the actual Annual Turnover declared at the end of the policy period.

Open Cover.

- Blanket agreement between Insurer & Insured.
- Most common form of cargo insurance contract.
- The insurer undertakes to insure all shipments or interests of the insured for certain voyages or traders at pre-agreed rates of premium.
- Open cover could be presented to banks to be held as security for the Letter of credit.
- When insured declares all consignments, separate certificates of Insurance shall be issued for each declaration.
- Premium is payable as and when shipments are effected.
- This cover is indefinitely open, subject to the Cancellation Clause which enables either the insurer or the insured to terminate after due notice.

MAIN CATEGORIES (In Sri Lanka)

CARGO

- Imports
- Exports
- Inland Transit
- Goods in Transit
- Produce in Transit
- Stock Through-put

Inco Terms – (International Commercial Terms)

Incoterms, a widely-used terms of sale, are a set of 11 internationally recognized rules which define the responsibilities of sellers and buyers. **Incoterms** specifies who is responsible for paying for and managing the shipment, insurance, documentation, customs clearance, and other logistical activities.

Common usages

Type of contract	Who is Responsible for insurance
1) Free on Board (FOB contract)	The seller is responsible untill the goods are placed on board the designated vessel. The buyer is responsible thereafter for the insurance.
2) Cost & Freight (C&F/CFR contract)	The buyer's responsibility attaches once the goods are placed on board the vessel. He has to take insurance from that point onwards.
3) Cost, Insurance & Freight (CIF contract)	The seller is responsible for arranging the insurance upto destination. The Seller will take up a cargo policy that is freely assignable. When the necessary documents are presented & accepted by the buyer, ownership over the cargo is transferred to him and the policy is also likewise assigned to him. The buyer could claim for any damages.

Imports & Exports

Imports

It is the duty of the **Importer** to arrange insurance when he imports on C&F or FOB terms.
When negotiating for a Letter of Credit for importing cargo the bank will request the importer to submit a marine insurance policy as collateral security
The bank will insist the cover to be arranged on 'warehouse to warehouse basis' (from supplier's warehouse to the Importer's warehouse)

Exports

It is the duty of the **Exporter** to arrange insurance when he exports on CIF terms Cover is usually arranged on 'warehouse to warehouse basis'
[from the shipper's (Exporter's) warehouse to the buyer's warehouse]

Inland Transit and Goods In Transit

Inland Transit

The cover is provided for a **<u>single inland journey</u>**, from one point to another. If necessary, the time period could also be specified

Good in Transit

This cover is provided to **<u>Distributors and Transport Agents</u>** to protect cargo whilst in transit. The cover is based on “estimated annual carryings” and will be adjusted as per the “actual carryings” at the end of the policy period

Produce in Transit

- This is to cover **local produce** from the time of plucking (tea) or tapping (rubber), plucking (coconut) and until put on board the vessel.

- Premium will be on "**estimated annual gross proceeds**" and adjusted at the end of the policy period. This is also an all risk policy.

Stock Through-put

- This cover is provided to **manufacturers**, to whom raw material is supplied on CIF basis and also the export is done overseas.
- Could be covered from the time the cargo is received at the port and until the final product is placed on board the steamer.
- The premium will be based on the "estimated annual turnover" and adjusted at the end of the policy period.
- Cargo will be covered whilst in transit and whilst stored.
- This is an all risk cover but excluding whilst being processed.

MARINE INSURANCE POLICY

- Evidence of a contract between the insurer and the insured
- Collateral security
- Documents are negotiable (Freely Assignable)
- Undertakes to indemnify “ In a manner and to the extent agreed”
- Against losses which occur during the period of a voyage

SPECIAL FEATURES

- Sea Cargo, Air Cargo, Postal / Courier Delivery, Personal Carriage of Gems / Gem Studded Jewelry
- Margin of Profit
- Taxes and other Govt. levies
- Duration of Cover
- Insurable Interest

TYPES OF CARGO COVERS

- Total Loss Only
- Institute Cargo Clauses “C” 1.1.82
- Institute Cargo Clauses “B” 1.1.82
- Institute Cargo Clauses “A” 1.1.82

PERILS COVERED BY INSTITUE CARGO CLAUSES “C”

Loss / Damage Caused by;

- Fire or explosion
- Vessel being stranded, grounded, sunk or capsized
- Overturning or derailment of land conveyance
- Collision or contact of vessel craft or conveyance with any external object other than water
- Discharge of cargo at a port of distress
- General average sacrifice
- Jettison
- General average and salvage charges
- Both to blame collision

PERILS COVERED BY INSTITUTE CARGO CLAUSES “B”

Loss / Damage Caused by;

- All perils covered by Institute Cargo Clauses “C”
- Earthquake, Volcanic Eruption or Lightning
- Washing overboard
- Entry of sea/lake/river water into vessel craft hold conveyance container lift van or place of storage
- Total loss of any package lost overboard / dropped whilst loading/unloading

PERILS COVERED BY INSTITUTE CARGO CLAUSE “A”

- All risks, subject to the specified exclusions

- Malicious Damage

COMMON EXCLUSIONS

- Willful Misconduct of the Assured
- Ordinary leakage, Breakage, Wear & tear and Losses in Volume / Weight
- Insufficiency in Packing
- Inherent vise
- Delay
- Losses due to financial default
- Malicious Damage (N/A for ICC "A")
- Nuclear Perils
- War, Strikes, Riots, Civil Commotions & Terrorism

ADDITIONAL COVERS AND DEDUCTIBLES

- Transshipment risk
- Land transit risk
- Rejection cover
- Special Conditions & warranties
- Excess & franchises

CARGO INSURANCE RATING

- Nature of cargo
- Nature of packing
- Mode of transport / voyage (air/sea/land)
- Age of vessel
- The assured (moral hazard)
- Insurance cover required(Clauses & excess)

CARGO CLAIMS SETTLEMENT

Documents Required

- Insurance Policy/Certificate duly endorsed
- B/L or Airway Bill duly endorsed
- Invoice and Packing List
- Duty paid Entry
- Letters from Carriers and Ports Authority
- Original Survey Report
- Claim Bill

The Sri Lanka Insurance Institute

Thank you.