MARINE INSURANCE

Extracts from the presentation by Mrs. Nimmi Gunaratne, Managing Director, Aitken Spence Insurance Ltd. at the People's Bank Auditorium Organised by Trade Finance Association of Sri Lanka

Definition

Marine Insurance is a contract whereby the insurer undertakes to indemnify the Assured in manner and to the extent agreed against Marine losses, that is, to say, the losses incident to a marine adventure.

Law applicable in Sri Lanka to Marine Insurance

The Law of England is to be observed in respect of maritime matters including marine insurance and the English Marine Insurance Act of 1906 also applies in Sri Lanka

Some Perils Involved in the Transit of Cargo

In overseas trade cargo has to be moved from one geographical area to another. This may involve transport by land, sea or air. It is not uncommon to find a combination of these modes of conveyance

Whilst cargo is so transported. some of the perils which may cause losses are:

- Maritime perils generally. this would include perils of the seas
- Damage to the carrying vehicle in the case of land transit
- Fire
- War
- Strikes, riots, civil commotions arid malicious damage
- Loss and damage whilst loading or unloading
- Theft. pilferage and non-delivery
- Damage by other cargo, for example, taint damage
- Water damage, that is rain as well as sea water
- Condensation damage - particularly applicable to cargo shipped in containers
- Damage whilst in transit and in handling, for example, denting, bending, chafage, chipping bursting etc
- Breakage, particularly applicable to fragile cargo

Marine Clauses

To make the policy apply to a particular type of risk and to meet constantly changing requirements of modern commerce, special clauses or sets of clauses are added to the Policy. In respect of most types of risks FOUR alternative types of cover are available in marine cargo insurance. They are:

Institute Cargo Clauses (C)

Institute Cargo Clauses (C) covers loss and/or damage to the subject matter insured reasonably attributable to

- Fire or explosion
- Vessel or craft 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
- Loss of or damage to the subject matter insured caused by general average sacrifice
- Jettison
- Certain sacrifice under or expenditure incurred to provide or minimize loss and-or damage due to the occurrence of insured perils. This would come under one or more of the following:

  Sue and labour charges, particular charges, salvage charges or General Average sacrifice and expenditure

Institute Cargo Clauses (B)

Institute of Cargo Clauses (B) covers loss of or damage to the subject matter insured reasonably attributable to

- Fire or explosion
- Vessel or craft being stranded grounded sunk or capsized
- Overturning or derailment of land conveyance
- Collision or contact of vessel craft or conveyance with external object other than water
- Discharge of cargo at a port of distress
- Loss of or carnage to the subject matter insured caused by general average sacrifice
- Jettison or washing overboard
- Entry of sea lake or river water into vessel craft hold conveyance container lift at place of storage
- Total loss of any package lost overboard or dropped whilst loading on to or unloading from
- vessel or craft

Institute Cargo Clauses (A)

With the development of trade, the demand grew to cover extraneous risk. The practice of adding such extraneous risks to the cover afforded by the Standard Marine Policy so developed that eventually it became convenient to grant cover on (A) Clauses, thus embracing all the transit risks under one omnibus wording. It should nevertheless be understood that before a fortuity or accident to which the loss or damage is attributable. A risk being defined as something which might happen and does not include losses of an inevitable nature. Under the (A) Clauses ᵗAll Risks' of loss of or damage to the subject matter insured are covered

The Three Clauses Defined Above Have The Following Exclusions

- Loss or damage or expense attributable to willful misconduct, ordinary leakage, ordinary loss in weight or volume, or ordinary wear and tear, insufficiency or unsuitability of packing or preparation, inherent vice or nature, of the subject-matter, delay, insolvency or financial default of the owners, managers , charterers or operators
- Unseaworthiness

Total Loss Only (T.LO.)

This type of cover is limited to Total Loss. The risks covered usually include all the maritime perils. However, Insurers may, in certain cases specify the perils, for example, cargo shipped in country craft may be insured only against Total Loss of the cargo following Total Loss of the craft. The most common reasons for effecting this type of cover are

- In respect of certain special types of cargo, the Assured may consider partial losses unimportant and would prefer to benefit from the cheaper premium charged for the limited cover
- In the case of very doubtful risks, such as% goods carried in country craft, the Insurer may he willing to afford cover only on such limited terms

Commencement and Termination of Cover under the Marine Cargo Policy

The Institute Transit Clause attached to all marine cargo policies; govern the commencement and termination of cover under the policy. The broad effect of this Clause is:

- To give the Assured continuous cover from the time the goods leave the warehouse or place of storage at the place named in the Policy for the commencement of the transit
- To continue the cover during the ordinary course of transit until the goods are delivered to the consignee or other final warehouse or place of storage at the destination named in the Policy
- To subject the transit cover to the overriding proviso that in no event shall the period of cover after discharge from the overseas vessel pending delivery of the goods exceed 60 days (commencing from the date of such discharge)
- Terminate the cover, event before expiry of the 60 days and before reaching the final warehouse referred to earlier, if there occurs any interruption of the ordinary course of transit for the purpose of storing, allocating or distributing the goods

Evaluation of a Marine Risk

One of the most difficult aspects in Marine Insurance is the evaluation or a risk. The factors which influence the quality of a risk are so numerous that is usually difficult to even identify them all. Assuming that the various factors have been identified, there is a further problem in that each factor may have a stronger oi weaker influence in the difference moment of the currency or a policy. The above position probably explains the absence of a tariff or standard scale o rates. Each risk has to be necessarily evaluate on its own merits because scarcely any one risk is exactly like another

Types of Marine Cargo Policies

There are three main types of Policies. They are:

- Voyage Policy
- Floating Policy or Open Policy
- Open Cover

Voyage Policy

This policy covers the subject-matter insured during the course of the declared voyage. Each voyage has to be insured separately by the submission of a proposal form duly completed.

Floating Policy or Open Policy

A floating Policy or Open Policy (sometimes also called a Declaration Policy), is issued for a fixed amount known as the sum insured. The sum insured referred to is based on the expected turnover of the item to be insured estimated by the Assured at the inception of the Policy. There is usually a "Maximum limit per bottom", that is, the maximum amount that could be shipped or carried in any one vessel or conveyance truck, etc. There might also be a "location limit" (maximum value in any one location at any time), if storage cover is included in the Policy.

As each shipment is dispatched, its value is declared to the Insurer and deducted from the sum insured. It will he seen that the life of the Floating or Open Policy, would depend not on a period of time but on the number and size of the dispatched. The disadvantages of this type of Policy are:

- The need to pay an advance deposit premium based Oil the estimated turnover
- An increase in the frequency of shipments may result in the Assured being without cover

Open Cover

This cover may be affected as an alternative to the Floating or Open Policy. It may be issued for a period of time or left indefinitely open, (subject, of course. to the Cancellation Clause which enables either the Insurer or the Assured to terminate the insurance notice), by which the Assured agreed to declare all shipments of the cargo falling within the scope of the Open Cover and the Insurer agrees to accept insure) same. A maximum limit per bottom" and a "limit per location" may be laid down in the same manner as in the case of the Floating or Open Policy

The declaration of sending also follows the same pattern. Certificates of Insurance are issued to the Insurer to be used for declaring shipments under either the Floating or Open Policy or the Open Cover. Open Covers are usually given to only large business organizations of high standing who have credit facilities with the Insurer. The latter requirement is to enable recovery of premium due without delay

The main advantages of an Open Cover are:

The Open Cover is for a period of time. The Assured would he aware of the expiry date of the policy and there would therefore be no possibility of his being without cover

- It is possible to issue an Open Cover that is left "Indefinitely Open". If this is done, the problem of an expiry date would also not arise
- Since the premium is paid only when declarations are made under the Open Cover, that is, at the time of shipment, the need to make any advance payments at the commencement of the Policy does not arise