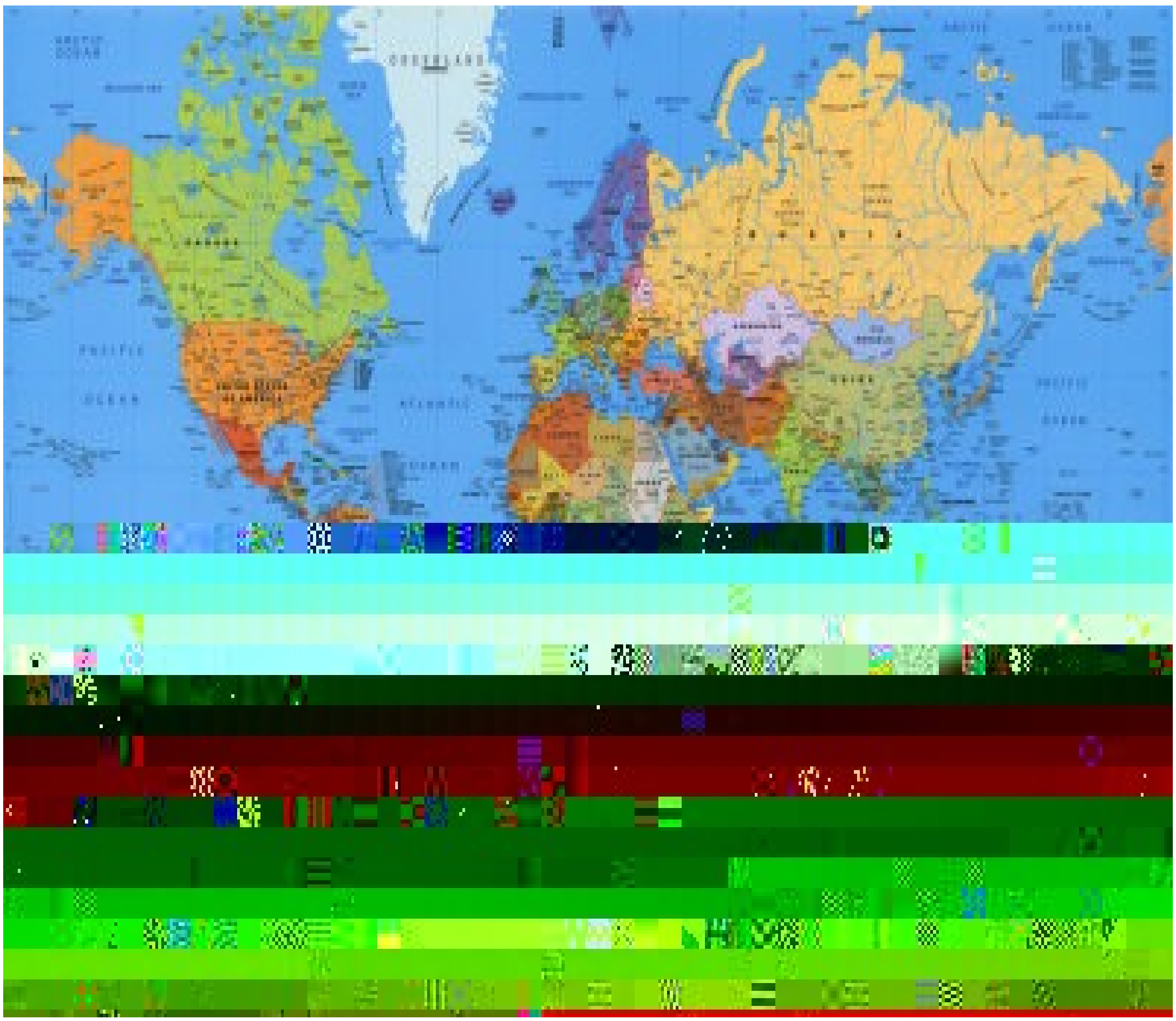
MARINE INSURANCE GUIDELINES



What is Marine Insurance?

Marine Insurance, is a contract whereby for a consideration stipulated to be paid by one interested in a ship or cargo that is subject to the risks of a marine adventure another undertakes to indemnify him against some or all of those specified risks during the voyage.

Marine contracts are written to cover four major types of property or interest:

1) The vessel or craft or other waterborne item.
2) The cargo;
3) The freight revenue to be received by the ship owner/carrier, and
4) Legal liability for negligence of the Insured

CARGO INSURANCE

- ***What are Institute Cargo Clauses?***

Set of terms for cargo insurance policies voluntarily adopted as standard terms by many international marine insurance organizations, including the Institute of London Underwriters and the American Institute of Marine Underwriters. It was over 25 years, since the Institute Cargo Clauses were revised in 1982, the clauses have been well supported then. However the Joint Cargo Committee undertook a review in 2009 of the clauses in light of the changes in the risk facing insurers, as well as developments in market conditions and in cargo handling practices.

Following extensive consultations both in United Kingdom and Worldwide, that review has led to the adoption of the revised (A), (B),(C) and War & Strikes Clauses. There are different forms of cargo clauses for sea & air cargo shipments, and specific trade clauses.

In Pakistan, import and export contracts are governed under the State Bank's Foreign Exchange Control Regulations. Following are the excerpts taken from the Foreign Exchange Regulations, Chapter XV, governing marine insurance:

12. Marine Policies - Imports

i) Imports into Pakistan are required compulsorily to be insured in Pakistan with companies operating in Pakistan. Imports can thus be made only on C & F or FOB basis. It is not permissible to issue marine policies covering imports into the country in currencies other than Rupees.

ii) As an exception to the above general rule:

   α) National Insurance Company Limited is authorized to issue foreign currency policies against imports financed by P.I.C.I.C./I.D.B.P and directly by the loan fiving agencies;

   β) Sub-authorisations issued under U.S. AID Programme on C.I.F basis can, at the option of the importers, be utilized for imports from U.S.A on C.I.F basis by arranging insurance in the U.S.A

13. Marine Policies – Shipment between two countries outside Pakistan

Shipments between two countries outside Pakistan financed by a person or firm in Pakistan with the permission of State Bank, can be insured in Rupees or in foreign currency.

Brief comparison of Cargo Clause (A), (B) & (C)

- 🟢 **Risks covered**
- 🔴 **Risks not covered** (or **Exclusions**)

Risks Covered and the Exclusions	**Institute Cargo Clauses**		
	(A)	**(B)**	**(C)**
Loss or damage to the subject matter insured proximately caused by [in Clauses (A)] and reasonably attributable to [in Clauses (B) and (C)]:			
Fire or explosion	🟢	🟢	🟢
Vessel or craft stranded, sunk, burnt or capsized	🟢	🟢	🟢
Land conveyance overturned or derailed	🟢	🟢	🟢
Collision or contact of vessel, craft or conveyance with any external object except water	🟢	🟢	🟢
Discharge of cargo at port of distress	🟢	🟢	🟢
	(A)	**(B)**	**(C)**
Earthquake, lightning or volcanic eruption	🟢	🟢	🔴
Malicious damage	🟢	🔴	🔴
Theft	🟢	🔴	🔴
Delay	🔴	🔴	🔴
Inherent vice or nature of the subject matter insured	🔴	🔴	🔴
Willful misconduct of the assured	🔴	🔴	🔴

	(A)	(B)	(C)
Loss or damage to the subject matter insured caused by:			
General average sacrifice	🟢	🟢	🟢
Jettison	🟢	🟢	🟢
Washing overboard	🟢	🟢	🔴
Entry of sea, river or lake water into vessel, craft, conveyance, container or place of storage	🟢	🟢	🔴
Total loss of any package lost overboard or dropped whilst loading on to, or unloading from, vessel or craft	🟢	🟢	🔴
Piracy	🟢	🔴	🔴

	(A)	(B)	(C)
War	●	●	●
Strikes, riots and civil commotions, includes terrorists or any persons acting from a political motive	●	●	●
Use of any atomic or nuclear weapon	●	●	●
Ordinary leakage, ordinary loss in weight or volume, or ordinary wear and tear	●	●	●
Insufficiency or unsuitability of packing	●	●	●
The assured privy to the unseaworthiness of vessel or craft and/or unfitness of vessel, craft, conveyance or container at the time of loading	●	●	●
Insolvency or financial default of the owners or operators of the vessel	●	●	●

- ***INCO TERMS –***

The sale terms determine the extent of insurance requirement and decides who will effect insurance policy. The terms are agreed upon by both buyer and the seller involved in the contract.

Incoterms or International Commercial terms are a series of sales terms. They are published by the International Chamber of Commerce (ICC) and are widely used in international commercial transactions. The purpose of Incoterms is to provide a set of international rules for the interpretation of commonly used trade terms in international transactions. They closely correspond to the U.N. Convention on Contracts for the International Sale of Goods. The first Incoterms were issued in 1936. The most recent Incoterms were updated in 2010 and became effective January 1, 2011.

Source – www.export.virginia.org

CARGO INSURANCE

UNDERWRITING CONSIDERATIONS

- ***Import / Export Insurance –*** The major underwriting considerations taken before deciding to write a marine insurance risks are as follows:

  a) Consignment

  b) Mode of Shipment, i.e., Sea/Air/Road;

  c) Packing of the consignment, i.e., Containerized, Break bulk or Bulk;

  d) Voyage details

  e) Vessel Selection – Since most of the cargo movements are via sea route, therefore, we have focused our discussion on vessels only.

     i) Age of vessel;

     ii) Flag;

     iii) Classification Society;

     iv) P & I Club;

     v) Owner of the vessel;

     vi) Vessel survey evidencing her fitness/ suitability;

     vii) Load Port Survey;

     viii) Unload port survey;

  f) Information related to the movement of goods to/fro United Nations &/or US or European Union related trade and economic sanctions

All the above factors influence an underwriter's decision for accepting or declining to write the risk. Knowledge of the mode of shipment is one of the important risk information for the application of Institute Cargo Clause. Information related to the packing of the consignment and the manner in which these are stored carry weight in the decision making process of the underwriter, especially for the application of premium rate and the terms that he is required to offer.

For an underwriter, the conveyance on which the consignment would move is the most critical information. For containerized and non-containerized shipment, vessel's age and the details mentioned above, are the important factors. These are all basic vessel related information, knowledge of which make life of a marine underwriter simple.

For bulk as well as project related shipments, most underwriters prefer going for a survey to verify the loading and unloading process of the insured cargo. This is done by professional surveyors, who possess expertise in the management of those cargoes. Underwriters also prefer vetting of the vessels which carry these type of shipments. The most important reason for these vetting surveys is that since these cargoes carry critical equipments, with huge values, it imperative for an underwriter to get satisfied with the vessel's capability to carry such goods. This underwriting consideration is also important for the importers, as these shipments are linked with the tight schedules under which projects are planned, a slight delay in those plans could even wipe out the whole project. It is also a known fact that many of the project cargoes have certain replacement time, and one major incident could delay the start-up date of the project, making it difficult for the investors to get their timely returns.

- ***Local Transit Insurance –*** The underwriting consideration for the in-country transits are:

  a) Consignment

  b) Mode of Shipment, i.e., Road/Rail/Air;

  c) Packing of the consignment, i.e., Containerized/Non containerized, bagged or Bulk;

  d) Voyage details

  e) Transport Selection – Since 80% of inland movements are done via road, therefore we have focused on the motor vehicles only:

     i) Fitness of the transport carrying the goods;

     ii) Transport company's past experience of carrying the consignment;

     iii) Knowledge of the transport agreement;

     iv) Route permit

     v) Loading/Unloading survey

The underwriting considerations for the insurance of the inter-country movements are almost the same as for out-side movements. The only difference is that the inter-country movements are usually done on road, via vehicles. In many countries, these movements are also done via rail racks, as cheap mode of transportation. Details related to mode of transportation, is the most important factor influencing the underwriter, on whether to write the risk or not.

In Pakistan's scenario, knowledge of road infrastructure is also critical, since many of our highways are not in a condition to carry high load transports. And that is the main reason that for high value shipments, most of the underwriters require mandatory information on the routes through which these get transported. There have been instances, where the insurance underwriters have asked for a route survey reports, especially for project cargoes. The route survey report carries all relevant information on the routes through which consignments would move, which includes, road conditions, its adjoining areas, distance from the port of unloading etc. Many a times, report also include some pictures of the road conditions.

- ***What is Marine Liability Insurance***

  Definition of marine liability insurance

  Brief overview on the type of covers provided and its related terms and conditions

  Most commonly used liability insurances

Marine Liability is insurance for legal liability for property damage or bodily injury to a third party, while engaged in marine related operations. It essentially is targeted to cover the following:

i) Port Authorities;

ii) Terminal Operators;

iii) Stevedores – Labourers who load and unload vessel in a port;

iv) Wharfingers – Persons who owns or manages a wharf;

v) Charterers

vi) Ship Repairer Yards

vii) Marine contractors – (dredging, bridge/tunnel/lock/ dam repair and other light construction)

viii) Miscellaneous Marine Servicing Company – (Pilot age, Ship owners liability to cargo)

HULL INSURANCE

Hull insurance covers damage to the vessel / craft hull, its machinery and its equipment and the legal liability of carriers of carriers to third parties.

In Pakistan There is very little hull business in view of there not being a major national fleet and in the main the business comprises of fishing vessels, pleasure craft and barges etc mainly those operating in the coastal regions.

The other category of hull insurance is short voyage only covers for breakup vessels at Gadani. The cover is restricted to total loss only and usually is for a duration not exceeding a few hours of risk. Vessels are mainly on their own power with occasional tows.

Insurance of these risks are generally written on the standard Institute clauses.

In addition to the traditional hull insurance there are some liability risks also pertaining to terminals, stevedores and other operators liabilities although some categories of liabilities particularly those relating to cargo liabilities are written in the marine cargo class of business.