MARINE INSURANCE AND CHARTERING

ΜΙΧΑΗΛΙΔΗΣ ΔΗΜΗΤΡΙΟΣ

ΙΟΥΝΙΟΣ 2016
ΠΤΥΧΙΑΚΗ ΕΡΓΑΣΙΑ

ΕΠΙΒΛΕΠΟΝ ΚΑΘΗΓΗΤΗΣ: Παπαλεωνίδα Παρασκευή

ΘΕΜΑ: Marine insurance and Chartering

ΤΟΥ ΣΠΟΥΔΑΣΤΗ: Μιχαηλίδη Δημήτριου

Α.Γ.Μ: 3272

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ABSTRACT:

MARINE INSURANCE AND CHARTERING

The first part of my dissertation looks at the “chartering” of a ship. In simplest terms, it is a rental agreement in which a charterer agrees to hire a ship from its owner. Typically it is the charterer who will be the owner of the cargo, which he needs to move to some other part of the world, and unless he has ships of his own, he will depend on others to move the cargo for him. The hire money for this transaction is known as “freight” and is the reward to the ship owner for the use of his vessel. The history of chartering goes back to the ancient ages. It evolved until it reached its present state, that offers us a variety of agreements and contracts of affreightment. Basic features of marine chartering are the charter-party and bill of lading. The second part of my dissertation looks at the concept of marine insurance that is at least as old as Aristotle and by the time of the Roman Empire, was well developed, with both ships and their cargoes covered by an insurance market in which the principles of risk and its “laying off” were well understood. In its modern form, we might consider the example of the Lloyd’s market, where ship owners and merchants met and the latter would undertake the former in the event of a marine loss and “underwrite” their signatures at the bottom of an insurance policy. These days marine insurance may offer a variety of types of insurance with diverse policies and its practice demands special attention.
CHARTERING

1.1 Definition
Chartering is an agreement, whereby one party, the owner, puts a ship or a part of it at the disposal of another party, the charterer, for the carriage of goods between named ports.

The charterer can in turn, sublet the ship or a part of it to a third party, who now becomes the “Disponent Owner”. The chartering agreement is contained in a document, called “Charter Party”. In most countries, chartering agreements are governed by local legislation. A vessel might also be chartered to carry passengers on a journey.

1.2 HISTORICAL INTRODUCTION
The contract of affreightment came into being from the moment the merchant did not personally accompany his goods anymore. Numerous agreements were concluded, between the ship owner and the owner of goods, which were eventually laid down in a contract, namely the “Charter Party”.

The end of the middle ages characterizes itself by a considerable development of the shipping industry. Each harbor has its own customs and uses and different maritime cities already have ordinances in which provisions appear concerning chartering. The customs of some cities and more specifically, the edicts of the Italian and Mediterranean cities have extended themselves very fast to other areas. The legislative provisions from that time, which left their largest marks on the maritime ocean carriage.

The Ordonnance de la Marine of 1681, which was established on the initiative of Colbert, the first minister of Louis XIV, gave the true legality to the contract of affreightment and served as a model for many maritime law books.
In the edicts of the Mediterranean cities, mention was made of a crew member who, with regard to the loading of the goods on board and making the inventory of the goods, would play a very important role; that crew member was called the "scribanus" or writer. He had to record all goods which were loaded on the ship in a register (log book) and keep it up to date. The extracts of this log book, which were delivered to the shippers can be considered as the precursors of the bill of lading. For each lot of goods which were loaded on board an extract from the log book was delivered.

It became absolutely necessary that the one who took the goods on board, to carry them to ever increasingly further countries, entered into some sort of engagement. The "various forms of proof" such as the testimony, etc., were more and more replaced by a written proof. This written engagement was in fact nothing else then the bill of lading (B/L) came.

The charter party as of now would retain its exclusive character of contract of affreightment, whereas the bill of lading would not only become the essential proof from the captain that he received the goods in his ship, but it would also become the document that represents the goods and in certain cases it would even serve as contract of affreightment and take the place of the charter party.

In the course of the years the charter party became more complicated and contained more and more clauses which led to long negotiations between the parties. On the other hand, the increasing development of trade and shipping created a large variety of contracts of which the terms and clauses, which lacked in uniformity, did not help the negotiations very much. At the end of the nineteenth century the need was felt to make the texts of the charter parties more uniform. Under the impulse of some groups of ship owners such as the Baltic and International Maritime Conference (BIMCO) and the Chamber or Shipping of the United Kingdom typical charter parties were issued which were used all over the world and which were adapted for the transport of a large variety of goods such as coal, wood, ore, petroleum, etc. Notwithstanding all those different types of charter parties were adapted to a well defined traffic, each charter party can contain additional or completing clauses which prevail over the printed clauses.

For goods, for which no specific charter party exists, the "Baltic and International Maritime Conference Uniform General Charter (as revised 1922, 1976 and 1994) including F.I.O. Alternative, etc.", and better known under the name "Gencon Charter", Gencon being the code name of the document, is used. Each charter party has a code name which considerably facilitates the settlement of the negotiations.
In its enterprise, BIMCO created a Documentary Council which is responsible for the elaboration of a number of documents which are used in the entire world. The Council published about fifty charter parties and ten bills of lading (among which the Conlinebill). For some years now, they also publish: Forms of Approved Documents which is a collection of charter parties, bills of lading and all kinds of other Sundry Forms such as the Standard Time Sheet, the Statement or Fact, as well as a number of typical clauses for charter parties.

The French term “charte partie” is composed of two words: the first word “Charte” dates from the thirteenth century and is originally from the Latin word Charta that means paper; the second word “partie” comes from partir, but not in the sense of to leave but from partager (in Latin: partiri). In former days the charter party was torn in two (from top to bottom) and half of it was entrusted to each party. To examine if the agreement was faithfully observed both halves were again united.

Today, charter parties are found as pre-printed documents and always in English. The blank spaces can be filled in by the parties themselves according to what they have agreed. Sometimes, the pre-printed text gives the choice between one or different possibilities which the parties can adapt to their taste or complete by means of attached clauses. The elaboration of the text in the English language does not mean that the English legislation applies; in other words, a contract of affreightment is not subject to the English law because it was established in English.

1.3 TYPES OF CONTRACT OF AFFREIGHTMENT

1.3.1 Introduction

For the transportation of goods, a ship owner can operate his ship in different ways.

1. He can operate his ship himself for the transport of its own goods. This occurs mainly with large and powerful companies such as oil companies, chemical companies and steel industries, which usually import their own raw materials.

2. He can let out his ship i.e. lend it to a third party. Only in case of hire will it be necessary to conclude a contract of affreightment between the parties concerned.
following main types of contracts of affreightment:

- the voyage charter;

- the time charter;

- the demise charter or bareboat charter;

- the lump sum charter or chartering against a fixed price;

- the contract or affreightment;

- the booking-note;

- the forward voyage charter;

The chartering by weight, number or measure has become obsolete and is therefore no longer encountered.

On the other hand, the modern economic and commercial practices and transport methods such as the creation of consortia, containerization, etc. have introduced new types of contracts of affreightment, such as:

- "cross charters", where the owner can also be the charterer of a part of the ship.

- "storage chartering", where ships are chartered for temporary storing of goods.

Some contracts of affreightment are bound locally such as the net form - chartering, which is used in the U.S. and where in addition to the freight, the charterer must also pay for the handling of the cargo.
There are also contracts of affreightment which are not related to the transport of goods such as the chartering of passenger ships, tugs, ship for scientific research, etc.

1.3.2 The Voyage Charter

The voyage charter is a contract for the carriage of a stated quantity and type of cargo, by a named vessel between named ports against an agreed price, called freight. It is the most widespread form of chartering.

Several possibilities can occur:

a. The entire ship is chartered for the transport of a full cargo, and this:
   • for a well determined voyage;
   • for a voyage to go and return
   • for a series of specific voyages
   • for a round trip with different harbours and the right for the charterer to load

b. Part of the ship is chartered for the transport of a certain shipment or part cargo. If the ship is chartered entirely, the agreement will usually be noted by a charter party, although, under certain legislations, this agreement may also be materialized by other means, even by testimony. Usually, under a voyage charter both the fixed costs and the variable costs are at the expense of the ship owner. In the contract of affreightment it is clearly stipulated who must pay the cargo handling cost.

1.3.3 The Time Charter

The time charter is a contract for the hire of a named vessel for a specified period of time, during which time he may use the vessel as he wishes (exceptions considered of course).

The time during which the ship is chartered differs from contract to contract and can amount to several months or years, i.e. the period time charter; or only amount to the time that is necessary to undertake one complete voyage, i.e. the trip time charter.

Under the period time charter, the charterer can make as many trips during that period with the ship as he possibly can. Under the trip time charter, only a single trip can be made just as under a voyage charter but at time charter conditions.
Under a time charter the ship owner is only responsible for the nautical and technical operation of the ship whereas the charterer (in fact the time charterer) is responsible for the commercial operation of the ship. It follows that under a time charter, the fixed costs of the ship are for the account of the owner and the variable costs are for the account of the time charterer. With a traditional time charter the time charterer will hire the ship equipped and manned.

1.3.4 Bareboat Charter

Under a bareboat charter, or demise charter, the charterer must equip and man the ship himself. The charterer must pay for all operating costs (thus both the fixed or running cost {with the exception of the investment costs and possibly some other fixed costs such as the cost for insurance, classification, etc.} and the variable costs), and recruit the captain and the crew.

1.3.5 Lump sum Charter

With a lump sum charter, the ship is let against a fixed sum (lump sum). The loaded quantities are not taken into account but only the space of the ship that is made available to the charterer.

As mentioned before, there are three main ways of chartering:

- the voyage charter;
- the time charter; and
- the bareboat charter or demise charter.

Usually, those contracts of affreightment which are fixed by means of a charter party, relate to a named ship, so that the ship owner is obliged to make that ship available to the charterer and no other one. Each type of contract of affreightment has its own specific characteristics. So, under the voyage charter, the laydays the demurrage, and the lay/can are of the utmost importance; under the time charter, the parameters of the ship, in terms of speed and fuel consumption are very important.
1.3.6 The Contract of Affreightment

In some cases the ship owner will prefer to fix a contract of affreightment on the basis of a fixed price per ton transported cargo without binding himself contractually to have to deliver a named ship. A ship owner who operates an entire fleet, generally prefers to be able to transfer the goods which he must carry, from one ship to another to be able to realize the most profitable operation prospects of his ships against the lowest possible freight rates. On the other hand, a shipper that has to make regular shipments - e.g. ten consignments of 50,000 tons of coal from Colombia to Rotterdam with two-monthly intervals - prefers to arrange all those shipments in a single contract where the specifications of each trip is left at the discretion of the ship owner.

In that case, between the ship owner and the shipper, a contract or affreightment will be concluded whereby the shipper doesn’t have to worry about the transport of his goods, while the ship owner can use his ships with a maximum of flexibility. Under the terms of a contract of affreightment (or a chartering agreement) the ship owner commits himself to transport the goods against a set price per ton without having to mention which ship he will use.

1.3.7 The booking-note

In some cases, instead of a charter party, a much simpler document is used namely the booking-note. The booking-note is used in the liner trade for the shipment of important goods for which tonnage was reserved long in advance. The booking note is usually issued by the booking agent.

The booking-note has the advantage of being less complicated than the charter party and it usually refers to the clauses and conditions of the bill of lading, a document which is essential to the implementation of the contract. The conditions of the bill of lading are generally those that are applied on regular lines and which are called liner term so that one could define the booking-note as a shortened charter party with liner term.
1.3.8 The Forward Voyage Charter

The forward voyage charter is a type of booking-note but used in tramp shipping and not in the liner trade. The ship owner will fix a cargo contractually for his ship in the future. The contract of affreightment is concluded long beforehand (sometimes six months, up to one year), therefore, long before the goods are loaded.

1.4 EVIDENCE IN MATTERS OF AFFREIGHTMENT

1.4.1 Introduction

As we mentioned already before, two main forms of shipping operations are known, namely: the liner shipping and the tramp shipping (including the industrial ocean carriage). In both cases, a certain tonnage space is let for the transport of goods. In the liner trade the shipments will usually be composed of a large number of lots with several shippers, whereas in the tramp shipping the cargos are generally composed of a single lot with only one shipper. It is clear that in both cases, the negotiations between the ship owner and the shipper(s) or charterer(s) will be entirely different.

1.4.2 The Charter Party

With a complete cargo which belongs to only one shipper, the parties (ship owner-shipper) will discuss all terms of the transport agreement in detail. Since the ship owner will have to negotiate with only one person (the charterer), it will be possible to draw up a contract of affreightment, namely the charter party of which all clauses were discussed closely, analyzed and weighted, both by the ship owner and by the charterer (via brokers).

In the liner trade the ship owner is nearly always confronted by a (very) large number of charterers, called co-shippers, and it would be an endless task if the ship owner had to conclude a charter party with each of them. Consequently there had to be another and simpler way to facilitate the negotiations considerably, more so as most local legislations prescribe that the agreement of hire is determined by proof resources which have been allowed in matters of
commerce. Therefore, the agreement of hire does not have to be determined necessarily through a charter party but can be ascertained by other means, even by deposition. In the liner trade the charter party has consequently to be replaced by a document which is not necessarily simpler but at least uniform and not subject to negotiations, namely the bill of lading.

1.4.3 The Bill of Lading

In fact, the bill of lading does not replace the contract of affreightment but it is legally accepted as the confirmation and the realization of the contract of affreightment. Nearly no legislation gives a clear definition of the bill of lading. Some local legislation refers to it as a receipt for the goods which the Master takes in charge. Article 1 of the new “Rules of Hamburg” which were accepted at the Diplomatic Conference of Hamburg in March 1978 gives of the bill of lading the following definition:

"Bill of Lading means a document which evidences a contract of carriage by sea and the taking over or loading of the goods by the carrier, and by which the carrier undertakes to deliver the goods against surrender of the document. A provision in the document that the goods are to be delivered to the order of a named person, or to order, or to bearer, constitutes such an undertaking."

1.4.4 Bill of Lading versus Charter Party

As a document, the bill of lading is more important than the charter party because the negotiable bill of lading gives the right to receive the goods. In fact the charter party is only a contract of affreightment that only represents the hire of tonnage space; consequently, the charter-party does not represent the goods. For that, another document is necessary that serves as proof of the actual loading of the goods and consequently that can be considered as the implementing evidence of the contract of affreightment. This other document is now exactly the bill of lading and for each transport of goods there should, in theory at least, be a charter party and a bill of lading. In the tramp shipping, where only full cargos are transported, there will generally be a charter party and
a bill of lading. In the liner shipping one will generally not find a charter party but only a bill of lading that will also serve as a charter party and play, in this manner, a double role.

The bill of lading does not replace the contract of affreightment but it is the presupposition of it. The fact that there is a bill of lading creates the presumption that previously a contract of affreightment was already concluded. This way of concluding happens in the liner shipping tacitly, when the ship owner announces the sailing and the destination of the ship, orally or in writing (e.g. via the press) and that the freight forwarder binds himself to ship goods with that named ship. In that case, the bill of lading is the confirmation and the written proof of the contract of affreightment; the bill of lading is also the proof that the goods were loaded on board the ship.

Conclusion

The bill of lading can be issued in two different manners:

1. Without a preceding contract of affreightment. There is only a presumption of a contract of affreightment and the provisions which govern the bill of lading, apply. If the bill of lading is negotiable then the Hague-Visby Rules which are of public order apply; if the bill of lading is not negotiable then the bill of lading is only a receipt.

2. In implementation of a charter party that was signed by the parties concerned.

a. If the bill of lading bears the words "Freight and all other conditions and exceptions as per Charter" the terms of the contract of affreightment are incorporated in the bill of lading, which means that those terms will in fact have to be applied, provided that they are not in contradiction with the terms of the Hague-Visby Rules.

b. The bill of lading does not refer to the charter-party. In that case the terms of the bill of lading will prevail on those of the charter party. The relation charter party/bill of lading, Scrutton writes the following in his Charter parties and Bills of lading:

"The terms of the contract may also be gathered from the charter, where there is one provided that its terms either wholly or in parts are expressly incorporated in the bill of lading, or the charterer is also the shipper, in which case the bill of lading as between charterer and ship owner is usually merely a receipt".

An important difference between the charter party and the bill of lading lies in the fact that the charter party is a gestation agreement i.e. that the contract is signed before it is carried out; whereas the bill of lading is an actual agreement because the contract is only signed after the goods have been really loaded on board.
1.5 PARTIES INVOLVED

1.5.1 Owner – Charterer

The parties which are involved in a contract of affreightment, are: the Owner, i.e. the person who lets the ship and receives the freight and the Charterer, i.e. the person who hires the ship and must pay the freight.

In principle, the Owner is the person to whom the ship belongs. It is however not necessary that the Owner is the actual Owner of the ship. An individual may hire himself a ship to sublet it further to someone else. In that case, this individual is called Disponent Owner (see also the paragraph dealing with the Disponent Owner). This is very current in bareboat or demise chartering and in time chartering.

Under the voyage charter one frequently refers to the Disponent Owner with the term Operator. Under the time charter one calls the Time Charterer who sublets the vessel to a third person, Chartered Owner or Time Chartered Owner.

Summarized:

- If the Owner is the actual Owner of the ship then he is simply called Owner

- If the Owner is not the actual Owner of the ship then he is called Disponent Owner or Operator, Chartered Owner, or Time Chartered Owner.

- If the commercial exploitation of the ship is left to a company or society then one calls that company or society, Managing Owner or Operator. In that case the term Operator is also used.
In the three cases: the Owner, the Disponent Owner and the Managing Owner (and therefore also the operator) are, as far as the interpretation of the contract of affreightment is concerned, are all three considered as the Owner.

The Charterer is in principle the Owner of goods but he can just as well be importer, exporter or freight forwarder.

1.5.2 Transport Broker

Generally it is neither the Ship Owner nor the Charterer who establishes the charter party and signs it, but their representative, viz. the transport broker. The tasks of the transport broker are exhaustively described in the paragraph Transport Broker. It is hereby important that the transport broker can act as Shipbroker or as chartering broker, or as cargo broker and that he only acts as agent provided that his signature is followed by the reservation "as agent only" without naming the parties concerned or "as agent for X". In the first case this can sometimes lead to difficulties, especially in court cases or disputes because it is not clear in whose name the broker has signed the charter party.

"Whether or not a person professing to have signed the charter as agent can sue and be sued as principal, depends, apart from custom or express agreement, on the intention of the parties, to be gathered in each case as a matter of construction from the terms of the charterparty as a whole. Where a person signs the charter in his own name without qualification, he is prima facie deemed to contract personally, and, in order to prevent this liability from attaching, it must be clear from the other portions of the charterparty that he did not intend to bind himself as principal.

A person may be a party to a contract in two capacities, both as principal and agent. The description of the person in the body of the document and the form of his signature are the most material matters to be considered. The fact that the signature is qualified by the words "as agent" will generally be accepted as conclusive evidence that the signatory does not intend to contract as principal. An agent wishing to protect himself from personal liability should, therefore, state in the body of the charter that it is made by him as agent for the Charterer or Ship Owner, and sign it "D, as agent for the Charterer" (or Ship Owner). In this case he cannot be sued on the
charter, unless a custom exists which renders him personally liable. Where an agent contracts for an unnamed principal, evidence of a custom that the agent is personally liable if he does not disclose his principal either at the time of the contract or within a reasonable time is admissible to render the agent liable as principal, but not to exclude the principal's liability.

The fact that the principal carries on business abroad is, however, a relevant circumstance in determining whether the contract on its true construction admits the foreigner as a party, and whether the agent contracts as a principal (Teheran-Europe).

A person may by his conduct stop himself from denying that he is personally liable. Sometimes the Charterer or the Ship Owner wishes not to be known (generally for commercial reasons) so that the name of the broker is mentioned in the charter party. In that case the broker must also have his signature followed by the usual reservation. In particular circumstances abroad, the master can act as broker; he must however therefore be authorized by the Ship Owner.

Conclusion

At the fixing of a charter party (or any other chartering or transport agreement) generally four persons are involved, viz.: the Ship Owner, the Shipbroker, the Charterer(s) and the cargo broker(s).

1.5.3 Choice of Broker

The profession of broker is not protected as is the case for some other professions such as: doctors, lawyers, architects, et al. There is neither a law of establishment, so that in principle anybody can establish himself as broker (the same goes for experts) except in the countries where, for that type of profession a Government monopoly or State monopoly exist.

In the United Kingdom, which has a large maritime tradition, one finds the title of Chartered Broker which is protected. To be recognized as a Chartered Broker, the candidate must, within the lap of the association, take a number of theoretical and practical tests whereupon he will be assessed by the oldest members of the association and if successful he will be accepted as a full member.

This does not mean of course that other brokers cannot be active as well or that they are not worthy of the Owner's or Charterer's confidence. But the fact of being a member of an association has the advantage that the broker has to keep to strict ethical rules if he does not want to run the risk of losing its membership and, as a consequence, also a serious guarantee of experience and integrity towards his mandator.

Between the mandator and the broker there must always be a perfect atmosphere of trust. In chartering there are sometimes important amounts involved and the negotiations must very often take place at a very fast tempo, where it is not always possible to cover oneself in writing, given
the considerable distances at which the negotiators sometimes find themselves, the time
differences, the communication difficulties, etc. It is therefore not unusual that the contract of
affreightment is already carried out while only an oral agreement exists (by phone, e-mail, telex
or fax) and that the contract (the charter party) must still be signed.

In the Chapter, The Commercial History of Shipping, we already pointed to the motto of the
Baltic Exchange: "My word is my bond" and that, he who breaks his word, will be entirely
excluded from the business world. The maritime world is in fact a closed world in which
everyone knows everyone else. Hereby, over the whole world, a selection is automatically and
very quickly made, or a clean house kept and a company or individual who does not stick to the
rules (the so-called Code of Conduct) or who acts in a suspect manner will not last long in the
business.

An Owner and/or a Charterer who wants to contact a broker can do this in two different ways.
They can always keep to the same broker or they can contact several brokers. Both systems have
their advantages and disadvantages although, experience has shown, that when one contacts
several brokers, the efforts which are provided by the one often come as a benefit to the other
and not to the mandator.

1.5.4 Brokerage

For their intervention brokers usually receive a commission or brokerage, which usually
represents a certain percentage of the gross freight or hire. Since the brokerage is due on the
freight or hire it must be paid by the Owner. It usually amounts to 1.25% per broker but sensu
stricto there is no maximum nor minimum, and the parties concerned are free to agree on the
amount to be charged.

The number of brokers (or intermediaries) varies from one chartering to the other and since it is
the Ship Owner who must pay for the brokerage, it is in his interest to keep the number of
intermediaries to a strict minimum. This is also in the Charterer's interest because, when setting
the freight, the Ship Owner will in any way take into account the brokerages he has to pay. If, for
instance, 3 brokers are involved by a chartering, then the Owner has to take into account a
brokerage of 3.75% in the freight calculation.

During the chartering negotiations or at its fixture (summary of the agreed terms) the brokerage
can be indicated in several ways: a.... % total commission b.... % total commission for division
with others c.... % commission past us.

The first two points speak for themselves. In the third case, "past us" means that in the offer, the
brokerage is not yet included and must, therefore, still be added. This is especially common
when several brokers are involved in the chartering and that the broker who eventually makes the
offer to the Ship Owner, has not yet included his own commission. If, for instance, three brokers are involved in the chartering offer, "2.5% commission past us" means that eventually, the Ship Owner will have to pay 3.75% brokerage.

The brokerage may not be mistaken with the so-called address commission, which in fact, is a ristorno on the freight or hire, that must be paid to the Charterer.

If no address commission is due, and to avoid all confusion with the brokerage, the term "free of address" is inserted in the contract of affreightment, what means that absolutely no percentage is due to the Charterer. The address commission can be very high and sometimes amount to 5% of the freight or hire.

It is current that brokers, who act exclusively for a single mandator, charge a brokerage of 2.5%. In almost each contract of affreightment one finds a clause which regulates the brokerage and its payment. This clause also provides for the payment of a commission if the contract is broken. In case of non payment of its brokerage commission, the broker will have no recourse since he is not a contracting party. In that case, he will ask the Charterer to act in his name and ask the Owner to fulfil his obligations. If the Charterer refuses to intervene, the broker can go to a court of law, which can oblige the Charterer to intervene or allow the broker to exercise the Charterer's rights.

1.5.5 The Freight

The freight is the remuneration which the Charterer has to pay to the Owner for the use of the ship. Under the voyage charter this is indicated by the term "freight"; under the time charter one speaks of "hire". The freight under a voyage charter is paid at loading or at destination. The different payment agreements of the freight under the voyage charter are discussed in detail in the paragraph dealing with the voyage charter. The hire, under a time charter is usually a fixed amount expressed in Dollars, Pound Sterling, Euros, etc., per day and is usually paid in advance per calendar month or pro rata of a calendar month.

The freight can be expressed:

- by unit of weight: in long tons (2,240 lbs or 1016 kilograms), in short tons (2,000 lbs or 907 kilograms) or in metric tons of 1000 kilograms (currently nearly always metric measures are used).

- by unit volume: in cubic foot, in cubic meter, in bushels, in hectolitre (for the transport of grain), etc. Although the freight is fixed per transported unit, its settlement can be done in different ways:

- according to the intaken quantity;

- according to the delivered quantity;
- against a lump sum (fixed price);
- according to other ways to be mutually agreed (see further The Voyage Charter).

Against a lump sum, the Charterer binds himself to pay a fixed sum independently of the loaded quantity. The charter party must however state how much the Charterer plans to load, usually with a margin of 5 or 10% more or less at the Charterer's option.

To avoid possible arguments, re the number of tons of bulk cargo handled, the loading (and discharging) of the ship is often preceded by a so-called "draft survey" i.e. the determination of the quantity of goods loaded (or discharged) in function of the draught of the ship and this according to the deadweight scale the booking-note
2. MARINE INSURANCE

2.1 DEFINITION:

A simple definition of the word insurance would be “Protection against future loss.” Marine insurance is another variant of the general term ‘insurance’ and as the name suggests is provided to ships, boats and most importantly, the cargo that is carried in them.

Marine insurance plays an important role in the shipping industry and in shipping law. Most shipowners carry hull insurance on their ships and protect themselves against claims by third parties by purchasing "protection and indemnity” insurance. Cargo is usually insured against the perils of the sea, which are defined as natural accidents peculiar to the sea. For example, storms, waves, and all types of actions caused by wind and water are classified as perils of the sea. If a shipowner or cargo owner wishes to be protected against losses incurred from war, the owner must purchase separate war risk insurance or pay an additional premium to include war risk in the basic policy.

Incidents like piracy and possibilities like cross-border shoot-outs also pose a major threat when it comes to water transportation and therefore in order to avoid any loss because of such events and happenings, in the interest of the corporation and the transporter, it is always beneficial to have a back-up like a marine insurance. Marine insurance is a safe haven for shipping corporations and transporters because it helps to reduce the aspect of financial loss due to loss of important cargo. Also, it helps to bring about to the transporting companies and to the receiving parties, the duty, dedication and the straightforwardness of the insurance companies.
2.2 HISTORICAL INTRODUCTION

2.2.1 Early Historical Background.

Marine Insurance, the oldest of the many forms of protection against losses, has a long history of great interest. The ancient Phoenicians, the Greeks, the Romans were in the habit of guarding themselves against some of the risks of maritime enterprise by various systems of insurance, whether in the shapes of loans or mutual guarantee.

It is believed that, the loan form known under the name of ‘Bottomry’ is one of the oldest. It may be defined as the mortgage of a ship, i.e. her bottom or hull, in such a manner that if the ship be lost, the lender likewise loses the money advanced on her; but, if she arrives safely at the port of destination, he, not only gets back the loan but in addition, receives a certain premium previously agreed upon.

It is probable that the system of insurance arising out of Bottomry came to be not only the oldest but also the most wide-spread form of marine insurance, principally for two reasons i.e. the extreme simplicity of the transaction and the desire to escape the penalties of the laws against usury. The form of marine insurance, known as Bottomry, soon grew out and developed into the modern system of insurance.

2.2.2 MIDDLE-AGES

The commencement of the 17th century formed the starting point of a new period in the history of marine insurance in Great Britain. During the first period, dating back to the beginnings of foreign
commerce and ending within the 16th century, marine insurance was carried on chiefly, if not entirely, by foreigners. The first form of marine insurance in Britain had been started by a group of Hanseatic merchants and was later carried on by some German colonists who were the first known London underwriters to have exercised marine insurance almost exclusively with no apparent sign of competition for many years. During the second and subsequent period it fell into native enterprise. A distinct line and division between the two periods was formed by the Elizabethan Act of 1601 which is the first statute prepared by the English Government and passed by the Parliament. It was titled ‘An Act Concerning Matters of Assurances Amongst Merchants’ and it is highly memorable as the first in the statute-book regarding marine insurance. The Act of 1601 also established the Court of Insurance. The Court was unfavorably looked upon both by the mercantile community and the courts of common law and as a result had very little function.

2.2.3 The Founder of Lloyd’s and the Rise of Lloyd’s Coffee House.

Until 1666, the business of underwriting is not known to have been carried in any other specific fixed localities other than at the private offices of bankers, money-lenders and others who also pursued their own avocations besides. After this period, numerous coffeehouses were gradually established in the City of London for the purpose of underwriting. Within a few years they sprung all over London, and merchants visited them chiefly, if not entirely, for business purposes. The first London coffee house was opened in 1652, by a Mr. Bowman, in St. Michael’s Alley, Cornhill, London. The ‘Lloyd’s Coffee House’ originally located in Tower Street, moved to Lombard Street around 1691 or 1692. This, together with the fact that its owner was responsible for the issuing of the weekly newspaper ‘Lloyds News’ - furnishing commercial and shipping news - made it the place of resort for persons connected with the shipping business. In 1771, a Committee was elected to represent the underwriters and payment of a subscription, the first significant movement of underwriters themselves towards assumption of responsibility for the organization of the market and in 1871 - via the first Lloyd’s Act – it became a structured organization regulated by a constitution.

2.2.4 The Growth and Evolution of the System and the Law of Marine Insurance.

Over a hundred years passed after the enactment of the 1601 Act, before any other statute related to marine insurance was adopted. The Marine Insurance Act of 1745 was a breakthrough Act in that it prohibited the making of policies of marine insurance in the subject matter of which the assured...
had no interest. This was the first attempt to put an end to the practice of wagering disguised by marine policies whereby persons without interest in a vessel or its cargo would insure using a marine policy form. The 1745 Act required those procuring marine policies to be interested in the subject-matter, and similarly prohibited the practice of insuring on the basis of “policy proof of interest”. The Act of 1788 laid down that all policies made out in blank, were void and the Act of 1795, required all policies of marine insurance to be in writing and to be stamped. In 1894 ‘The Marine Insurance Codification Bill’ was introduced in the House of Lords, by Lord Herschell, and it is its content - slightly altered - which provided the basis for the 1906 Act, namely ‘An Act to Codify the Law Relating to Marine Insurance’. The early marine insurance legislation chiefly left it to the market and the Courts to develop the principles of marine insurance law which have been ultimately codified in the Marine Insurance Act 1906 (MIA 1906). The MIA 1906 is mainly a codification of around 200 years of judicial decisions and still nowadays there is no equivalent to it codification. The Act in many points is presumptuous in that its wording is binding and will operate in the absence of any contrary party agreement. Moreover, the marine insurance contracts which are underwritten in England are governed by the various sets of Standard Marine Clauses which frequently eliminate the power of the presumptions set by the Act. In addition, many post-Act decisions help refine the meaning of the Act. The 1906 Act approved the use of the Lloyd’s S.G. (Ship and Goods) Form of Policy, previously adopted by Lloyd’s in 1779. The Institute of London Underwriters drafted clauses appended to the policies, in order to deal with certain area of inefficacy of the SG Policy. The clauses of 1982, 1983 resulted in the SG Policy being abolished and replaced by a simpler wording which acts as a cover sheet for the relative Institute Clauses. The Institute Clauses have been revised many times, lastly in November 2003.
2.3. MARINE INSURANCE TYPES & POLICIES

2.3.1. TYPES OF MARINE INSURANCE

- **Cargo Insurance:** Cargo insurance caters specifically to the cargo of the ship and also pertains to the belongings of a ship’s voyagers. Provides protection against all risks of physical loss or damage to freight from any external cause during shipping, whether by land, sea or air. Put simply, cargo insurance provides a cost effective way of covering your customer, as well as yourself for physical loss or damage to goods in transit. It provides added value to your customers and helps differentiate you from your competition.

- **Hull and Machinery Insurance:** Hull & Machinery insurance is fundamental protection of a vessel against damage. The vessel, including her machinery and equipment, is insured to her full value and, depending on the chosen cover, the following risks may be indemnified: Total loss (actual or constructive) or expenses that might be incurred in repairing / replacing damaged parts of hull, machinery and other equipment, Expenses paid for prevention, minimizing of damages or calculation of loss, in case such expenses are caused by an insured peril, Vessel gone missing, General Average contribution, Salvage expenses.

- **Liability Insurance:** is a part of the general insurance system of risk financing to protect the purchaser (the "insured") from the risks of liabilities imposed by lawsuits and similar claims. It protects the insured in the event he or she is sued for claims that come within the coverage of the insurance policy. Originally, individuals or companies that faced a common peril, formed a group and created a self-help fund out of which to pay compensation should any member incur loss (in other words, a mutual insurance arrangement). The modern system relies on dedicated carriers, usually for-profit, to offer protection against specified perils in consideration of a premium. Liability insurance is designed to offer specific protection against third party insurance claims, i.e., payment is not typically made to the insured, but rather to someone suffering loss who is not a party to the insurance contract. In general, damage caused intentionally as well as contractual liability are not covered under liability insurance policies. When a claim is made, the insurance carrier has the duty (and right) to defend the insured. The legal costs of a defense normally do not affect policy limits unless the policy expressly states otherwise; this default rule is useful because defense costs tend to soar when cases go to trial.
**Freight Insurance:** Freight insurance offers and provides protection to merchant vessels’ corporations which stand a chance of losing money in the form of freight in case the cargo is lost due to the ship meeting with an accident. This type of marine insurance solves the problem of companies losing money because of a few unprecedented events and accidents occurring.

In addition to these types of marine insurance, there are also various types of marine insurance policies which are offered to the clients by insurance companies so as to provide the clients with flexibility while choosing a marine insurance policy. The availability of a wide array of marine insurance policies gives a client a wide arena to choose from, thus enabling him to get the best deal for his ship and cargo. The different types of marine insurance policies are detailed below:

### 2.3.2 MARINE INSURANCE POLICIES

1. **Voyage Policy:**
   It covers the risk from the port of departure up to the port of destination. The policy ends when the ship reaches the port of arrival. This type of policy is purchased generally for cargo. The risk coverage starts when the ship leaves the port of departure.

2. **Time Policy:**
   This policy is issued for a particular period. All the marine perils during that period are insured. This type of policy is suitable for full insurance. The ship is insured for a fixed period irrespective of voyages. The policy is generally issued for one year. Time policies may sometimes be issued for more than a year or they may be extended beyond a year to enable a ship to complete a voyage. In India, a time policy is not issued for more than a year.

3. **Mixed Policy:**
   This policy is a mixture of time and voyage policies. A ship may be insured during a particular voyage for a period, e.g., a ship may be insured between Bombay and London for one year. These policies are issued to ships operating on a particular route.
4. Valued Policy:
Under this policy the value of the policy is decided at the time of contract. The value is written on the face of the policy. In case of loss, the agreed amount will be paid. There is no dispute later on for determining the value of compensation. The value of goods includes cost, freight, insurance charges, some margin of profit and other incidental expenses. The ships are insured in this manner.

5. Unvalued Policy:
When the value of insurance policy is not decided at the time of taking up a policy, it is called unvalued policy. The amount of loss is ascertained when a loss occurs. At the time of loss or damage the value of the subject-matter is determined. In finding out the value of goods, freight, insurance charges and some margin of profit is allowed to the policy in common use.

6. Floating Policy:
When a person ships goods regularly in a particular geographical area, he will have to purchase a marine policy every time. It involves a lot of time and formalities. He purchases a policy for a lump sum amount without mentioning the value of goods and name of the ship etc.

When he sends the goods, a declaration is made about the particulars of goods and the name of the ship. The insurer will make an entry in the policy and the amount of policy will be reduced to that extent. This policy is called an open or a floating policy.

The declaration by the insured is a must. When the total amount of policy is reduced, it is called ‘fully declared’ or ‘run off. The underwriter will inform the insured who will take another policy. The premium is called on the basis of declarations made.

7. Block Policy:
Sometimes a policy is issued to cover both land and sea risks. If the goods are sent by rail or by truck to the departure, then it will involve risk on land also. One single policy can be issued to cover risks from the point of dispatch to the point of ultimate arrival. This policy is called a Block Policy.

8. Wager Policy:
This is a policy held by a person who does not have any insurable interest in the subject insured. He simply bet or gambles with the underwriter. The policy is not enforced by law. But still
underwriters claim under this policy. The wager policy is also called ‘Honour Policy’ or ‘Policies Proof of Interest’ (P.P.I.).

9. Composite Policy:
A policy may be undertaken by more than one underwriter. The obligation of each underwriter is distinctly fixed. This is called a composite policy.

10. Fleet Policy:
A policy may be taken up for one ship or for the whole fleet. If it is taken for each ship, it is called a single vessel policy. When a company purchases one policy for all its ships, it is called a fleet policy. The insured has an advantage of covering even old ships at an average rate of premium. This policy is generally a time policy.

11. Port Policy:
It covers the risks when a ship is anchored in a port.

2.4. PRINCIPLES AND PRACTICE OF MARINE INSURANCE

2.4.1 Functions of Marine Insurance:

1. Spread of Risk: Share the losses of a few among the many. Indemnity: If a loss occurs, the Insured will be put back into the same financial position as just prior to the loss. The Insured must not profit from the loss. Most policies are on an actual cash value (ACV) basis (the value of an equivalent piece of property of the same age and condition and subject to the same wear and tear as the property that was lost or destroyed).

2. Aid to Security: Removes uncertainty of a potential financial loss; individuals & businesses are more free to expand without need to set aside reserves for future losses.

3. Aid to Credit: Loans are not advanced unless item financed is insured; insurance protects creditors’ investments.

5. Source of Capital: Shareholders’ capital and premiums generated by Insureds are invested in the Canadian economy. Marine Insurance is a necessity to International Trade financing; 1/3 of Canada’s gross national product is exported.

6. Loss Prevention: The industry contributes to the prevention of losses (mostly through research, education, and improved regulations).

### 2.4.2 Process of Insuring a Risk at Lloyd’s:

Lloyd’s Brokers: Act in interest of customer, paid commission by Insurer. Brokers approach underwriters and describe the risks and insurance requirements, and try to obtain the best possible price. The broker must be able to find coverage of the whole risk by signing up syndicates at the original agreed price. Brokers also advise clients on loss prevention.

Syndicates of Members of Lloyd’s: range in size, each syndicate represented by an underwriter. Unlimited Liability: Every individual member of Lloyd’s has proved wealth and trades individually with unlimited liability.

Original Slip: Drawn up by the broker; contains details of the risk, insurable interests of the applicant. This is the basis of the contract and is initialed (or stamped) by Insurer. The Slip is evidence that the underwriter has accepted insurance and that he has agreed to sign a policy based on the terms & conditions of the Slip.

The Lead: This is the first underwriter to initial the slip, where more than 1 underwriter used; other underwriters initial the slip, ‘following the lead’, until 100% of the risk is covered.

Lloyd’s Underwriters Association: Association of underwriters who meet for consultation on matters affecting the interest of underwriters of Lloyd’s.

Intelligence System of Lloyd’s: Various publications issued by Lloyd’s which are indispensable to any marine underwriter:

1. Lloyd’s Register of Shipping: Annual publication with monthly updates; contains details of virtually all vessels afloat (name, number, flag, nationality, registered owners, managers, tonnage, type of vessel/engine/auxiliary machinery).

2. Confidential Index: Published twice a year; contains record of ownership of all vessels worldwide.
3. Confidential Ports Record: Lists information on all world ports of significant size (name, country, Lloyd’s agent, approaches to ports, methods of loading/unloading, craft risk, theft & pilferage risk, climate, customs details, fire risk, port congestion, salvage & repair facilities).

4. Daily Shipping Index: Lists information on almost all vessels engaged in ocean trade (name, flag, current voyage, date last sailing, date last report, recent casualty, Lloyd’s casualty reports).

5. Casualty Report Service (Weekly Casualty Reports): Lloyd’s sends subscribers casualty slips with information of all occurrences which are likely to affect underwriting decisions.

6. Lloyd’s Survey Handbook: Contains information on treatment or survey of damaged goods and the susceptibility of certain commodities to loss/damage.

2.4.3 Insurance Accounts:

1. Three-Year Method (Run-Off or Throw-Back Record) used in British marine insurance market and in other areas by some companies. Each year’s marine account remains open for 3 years. In the accounting record, a loss is placed against the year of the premium which paid for it. This allows for extensive and ongoing claims to be settled better.

2. One-Year Method (Earned Premiums, Incurred Losses): Used in other markets; a percentage of the annual premium is reserved to cover outstanding losses. Payment of Premiums: If insurance is effected through a broker, the broker is responsible to the underwriters for the payment of premium. Insured can sue broker if broker fails to pass on premium to Insurer. Lloyd’s policies acknowledge receipt of premium, other companies’ policies do not, and instead provide for cancellation in the event of non-payment of premium.

3. Broker’s Lien: For the protection of the broker (broker still liable to underwriter even though he may be unable to collect premium from Insured), broker may retain the policy until Insured pays the premium and other outstanding accounts. As long as the Broker’s Lien is in place, no claims may be collected on the policy and the policy cannot be used as security.

4. Deductions: Rate of brokerage (commission) for marine insurance in Canada is 10-15% ocean cargo, 15% commercial hull, 20% yachts.

Cover Note: After insurance placed, the broker (or underwriter if no broker used) sends his client a Cover Note to inform him of the insurance policy’s existence and its terms and conditions. The
Cover Note does not take the place of a policy, but is of use to the Insured to sue the broker if he fails to carry out instructions.

2.4.4 Closing the Insurance:

1 Britain: Lloyd’s Policies: Prepared by broker; policy and Bureau slip lodged, checked, and executed with Lloyd’s Policy Signing Office; policy impressed with seal of Policy Office and collected by broker. Each syndicate’s line proportion insured is shown; each subscription is a separate contract.

ii Companies’ Policies: Combined policy form used (since 1939) for all subscribing companies; prepared by broker; policy passed to Institute of London Underwriters for checking & signing.

2 Canada: Subscription Policies (Joint Policies) used for large risks so that many companies can participate. Each underwriter accepts a proportion of the risk and each signs the policy.

3 USA: Like Canada, but signing of Subscription Policy by American Hull Insurance Syndicate.

Marine Adventure: For perils covered by marine contract--includes perils of the sea and is extended to include land risks incidental to the sea voyage and losses on inland waterways. The adventure must be lawful; there must be a ship, goods or other movables exposed to marine perils, or where the earning of freight/commission/profit endangered by marine perils. Marine Adventure also occurs where liability to a third party may be incurred by some person with interest or responsibility for the ship or goods.

2.4.5 Basic Principles of Marine Insurance:

- Insurable Interest: The Insured must have financial interest in the object of insurance. A person has insurable interest in property when he will be financially prejudiced by its loss or damage and when he will financially benefit from its continued existence. Every person has an insurable interest who is interested in a marine adventure. A person also has insurable interest in his potential responsibility (legal liability) to pay damages to others for injuries he causes to them or damage he does to their property. In order to recover for a loss, an Insured must have insurable interest at the time of loss (not necessary to have insurable interest at the time of effecting insurance). Without the rule of Insurable Interest, a person could insure a vessel with the hope it would sink and
collect the insurance (called Wagering or Gaming). The Gambling Policies Act (1909) provides for the criminal punishment of persons involved in illegal wagering in marine insurance. Policy Proof of Interest (P.P.I.) or Honour policies are used and in the event of a claim the policy is taken as sufficient proof of insurable interest. Insurers must be careful to establish the probability of insurable interest before issuing P.P.I. policies.

Kinds of Insurable Interest:

i: Defeasible Interest: Interest ceases after beginning of Marine Adventure for reasons other than marine perils. If risk ceases, no return of premium.

ii: Contingent Interest: Interest acquired during the Marine Adventure due to a contingency.

iii: Partial Interest: Interest in the property insured does not have to be 100%--a person may insure up to the value of his share of the property.

iv: Reinsurance: Interest is acquired in the property insured by the insurance company and they may reinsure to protect their interest.

v: Bottomry: Interest acquired by loan raised by captain of vessel on ship/cargo when money urgently needed for prosecution of voyage, not repayable if venture lost.

vi: Respondentia: Interest acquired by advance secured on cargo repayable only if cargo saved, even if ship lost.

vii: Master’s and Seamen’s Wages: Individuals have interest in their own wages.

viii: Advance Freight: Freight is the remuneration payable to a shipowner for carriage of goods or for the hire of his ship or cargo space. Unless freight is wholly or partly prepaid, it remains at the risk of the shipowner, who has insurable interest in it.

ix: Insurance Premiums: The Insured has insurable interest for the premium he has paid on the policy.

x: Quantum of Interest: Insurable interest from insured property that is mortgaged; only applies to property given as security for loan. Mortgagor (borrower) retains full insurable interest as he must repay mortgagee (lender) in event of loss; mortgagor has insurable interest to extent of the loan.

- Indemnity: If a loss occurs, the Insured will be put back into the same financial position as just prior to the loss. The Insured must not profit from the loss. Most policies are on an actual cash value (ACV) basis (the value of an equivalent piece of property of the same age and condition and subject to the same wear and tear as the property that was lost or destroyed). Exceptions:
  
i: Valued Contracts: Insures property for an amount which is agreed to by the Insurer and the Insured at the time the contract is made; in the event of a total loss a definite amount will be paid. Valued policies are used for insuring items that are difficult to valuate after a loss. Also, Contracts of Compensation (Life Insurance).
  
ii: Replacement Cost Contracts: The property damaged will be assessed on the basis of the cost at the time of the loss, destruction or damage, of repairing or replacing (whichever is less) with like kind and quality, without any deduction for depreciation. Extra premium is charged for this type of insurance.

- Utmost Good Faith (Uberrima Fides): Required from both parties. Insurer must deal with all claims fairly and expeditiously and be able to pay for potential claims. Only Insured knows all the facts; he is required to give full information of every material fact
in respect to the risk; policy voidable if Insured has not given full and correct information, by:
i: Nondisclosure: Failure to inform the Insurer of a material fact. Includes failure on the Insured’s part to find out all material facts of the risk.
ii: Misrepresentation: Incorrect statement about a material fact.

➢ Subrogation: The right of an Insurer, after paying a loss, to assume the rights of the Insured to recover this loss from the responsible party.

2.4.6 Types of Loss:

1. Total Loss: Limit of insurance applies; 2 Types:
i: Actual Total Loss: Loss/damage to entire property (physical total loss); Can occur 3 ways:
  • All property is destroyed.
  • Loss of Specie: All property so damaged as to cease to be a thing of the kind insured (cement damaged by water, becoming concrete).
  • Insured irreplaceably deprived of all property, even though not destroyed.

ii: Constructive Total Loss: Cost to repair/replace exceeds policy limit (commercial total loss). Insured may claim for a partial loss or abandon the property and claim a total loss. Property must be reasonably abandoned because actual total loss appears inevitable or to prevent total loss requires an expenditure exceeding the saved value. It is a condition precedent to a claim that the Insured unconditionally abandons his interest to the Insurer. Insurer is entitled to take over the property if desired.

2. Partial Loss: Loss is less than total amount of insurance; loss/damage to some of property.
i: Particular Average: ‘Average’ means partial loss. ‘Free from Particular Average’ (F.P.A.) means partial loss not covered. ‘With Average’ (W.A.) means partial losses covered. ‘The Memorandum’ is a restrictive clause in the policy that excludes coverage for Particular Average losses to certain types of goods (usually perishables). ‘The Memorandum’ may exclude goods under certain conditions or losses to certain goods unless a stated minimum loss is reached (minimum percentage called the Franchise). Franchise percentages are 5% for certain named goods (sugar, tobacco, hemp, flax, hides, skins), 3% for ship, freight, and other goods. Once Franchise amount reached,
policy pays for total loss (not just amount in excess of Franchise).

ii: Particular Charges: Expenses incurred by or on behalf of the Insured for the safety or preservation of the property insured, excluding General Average and salvage charges. Not included in Particular Average to reach Franchise amount. Particular Charges can be incurred during the voyage or at destination.

iii: Sue and Labor Charges: Incurred short of destination. Insured incurs charges while protecting property insured from loss/damage. Paid in full in addition to amount of loss. Encourages Insured to take all possible steps to protect property. Essential Features:

- Insured peril must have occurred; charges incurred to avert or minimize loss covered by policy.
- Charges must be incurred short of destination.
- Charges must be incurred for benefit of property insured.
- Charges must be reasonable.
- Charges must be incurred only by the Insured, his factors, servants or assigns (excludes salvage).
- Charges must be incurred only in connection with insured peril (charges incurred to reduce partial losses not recoverable on an F.P.A. policy).
- Extra Charges: Expenses of proving a claim, such as survey fees, auction or sale charges; paid by Insurer only if claim paid; not included in Particular Average to reach Franchise amount. Survey carried out on instructions of Insurer paid regardless of claim.

3. The Overdue Market:
   i: Process of posting a ship ‘missing’ at Lloyd’s: If after reasonable time no news received of overdue vessel, interested party applies to Lloyd’s for public inquiry. Lloyd’s establishes when vessel last seen/heard. After reasonable time, Lloyd’s posts ship missing—total loss claims then due for collection.
   ii: Reinsurance can be arranged from Lloyd’s and other companies on vessels that are overdue or have met with casualty. Rates depend on conditions & situation of vessel, weather, and possibilities of salvage. Reinsurance effected on conditions “to pay as original” or “total loss only”. Rare now.
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