

The background of the slide is a close-up, slightly blurred image of the Canadian flag, showing the red maple leaf in the center and the red and white stripes. The text is overlaid on this background.

# **MARINE HULL & P&I Insurance**

**Capt. Saleem Ahmad**

# Topics of this Presentation

- **Insurance as Valid Contract**
- **Interpretation of Policy Document**
- **Essentials of Policy Document**
- **Policy conditions**
  - Performance Period & Performance Area
  - Types of Hull Cover & Policy conditions prevalent in Canada
  - Coverage & Restrictions unique to Policy conditions
- **Perils Insured**
  - Named perils & Inchmaree perils
  - Collision Liability
  - General Average
  - Salvage & salvage Charges
  - Sue & Labour
  - Total Losses
- **Protection & Indemnity**
  - What is P&I
  - P&I History
  - How Clubs Charge Members, How Clubs Operate, How Clubs offer unlimited Cover
  - What coverages are offered under P&I in Canada
  - What is covered under Protection
  - What is covered under Indemnity
- **War and strike cover**

A man in a dark suit and tie is shaking hands with another person over a wooden desk. The desk has a calculator, a pen, and some papers. The background is a bright, out-of-focus office setting.

# **Insurance as Valid Contract**

# Valid Contract

- What is a contract?

- A contract is an **agreement** between two or more **parties** that is intended to be **enforceable** and where all the parties stand to **gain** through the performance of the contract.

- A contract may be created:

- Orally;
- In writing;
- By inference or conduct; or
- By a combination of all or any of the above.

# Essential Elements of a Valid Contract

- Essential elements?

- For a binding contract to be formed there must be:
  - An *offer* which is *accepted* and for which valid *consideration* is given;
  - An *intention* to create a legal relationship;
  - And *certainty* of terms.

- The offer

- Must be communicated.
- Can be revoked at any time prior to acceptance.

- The acceptance

- Must be communicated.
- Must be of the offer made, otherwise it could be a counter-offer.

- Consideration

- Something valuable (Often Money) must be supplied in return for the promise made by the offer, e.g., premium.
- Must not be unlawful.

- Intention

- The parties must intend to be bound by the contract.

- Certainty

- There must be certainty as to the parties, subject matter, and price. Many contracts require parties to agree to standard terms and conditions.

# Insurance Contract (Different than other contracts)

- **Personal Contracts**
  - It protects not the property but **interest of Person in the property**.
- **Unilateral Contracts**
  - Bilateral means two-sided; unilateral means one-sided. Insurance contract is a unilateral contract, under which **only the insurer is bound to a continuing promise**.
- **Contract of Adhesion**
  - Contract of cohesion are drafted by both parties to the contract whereas Contract of adhesion is prepared by one party, in which all the terms are **drafted by the insurer on a take-it-or-leave-it basis**.
- **Conditional Contract**
  - **Involving the exchange of unequal amounts**. The insurer's response is triggered only if insured event occurs, and the extent of the insurer's obligation usually is not directly related to the amount of premium (consideration) paid by the insured.
- **Contract of Utmost Good Faith**
  - Unlike other commercial contracts, insurance **contracts are of utmost good faith**, under which all involved parties rightfully expect ethical treatment.
- **Contract of Indemnity**
  - Unlike other commercial contracts where Consideration and Performance are specified, **Insurance contract with the exception of valued policies are contract of indemnity**. It means that the insurer's obligation is directly related to the extent of the insured's financial loss.

A wooden gavel is positioned diagonally across the frame, resting on a stack of books. The gavel's head is on the left, and its handle extends towards the right. The background is a plain, light-colored surface. The text "Interpretation of Policy Document" is overlaid in a bold, blue font, centered horizontally and partially overlapping the gavel and books.

# **Interpretation of Policy Document**

# Interpretation of Policy Document

- **Doctrine of Adhesion**
  - As the policy document is drafted by the insurer, the courts will tend to interpret any ambiguities in policy wordings in favour of the insured.
- **Standard Market Wordings**
  - As the policy document is standardized and widely used by the insurers, the insured is ought to know them. The courts will tend to interpret them under common law and/or law of precedent.
- **Manuscript Wordings**
  - Since these are drafted and agreed by the insured (broker) and the insurer, the courts will tend to interpret the policies on equal footing.
- **Printed versus Handwritten changes**
  - Handwritten changes takes precedent over the printed wordings, the courts will tend to accept handwritten alterations tend to more accurately reflect true intent than do other, preprinted policy terms.
- **Statutory conditions versus Policy conditions**
  - If there is a state law and statutory conditions, then those conditions will prevail regardless of whatever policy conditions on the same matter is incorporated in the policy document.



**Marine Insurance**

**Essentials of  
Policy Document**



# Essentials of Policy Document

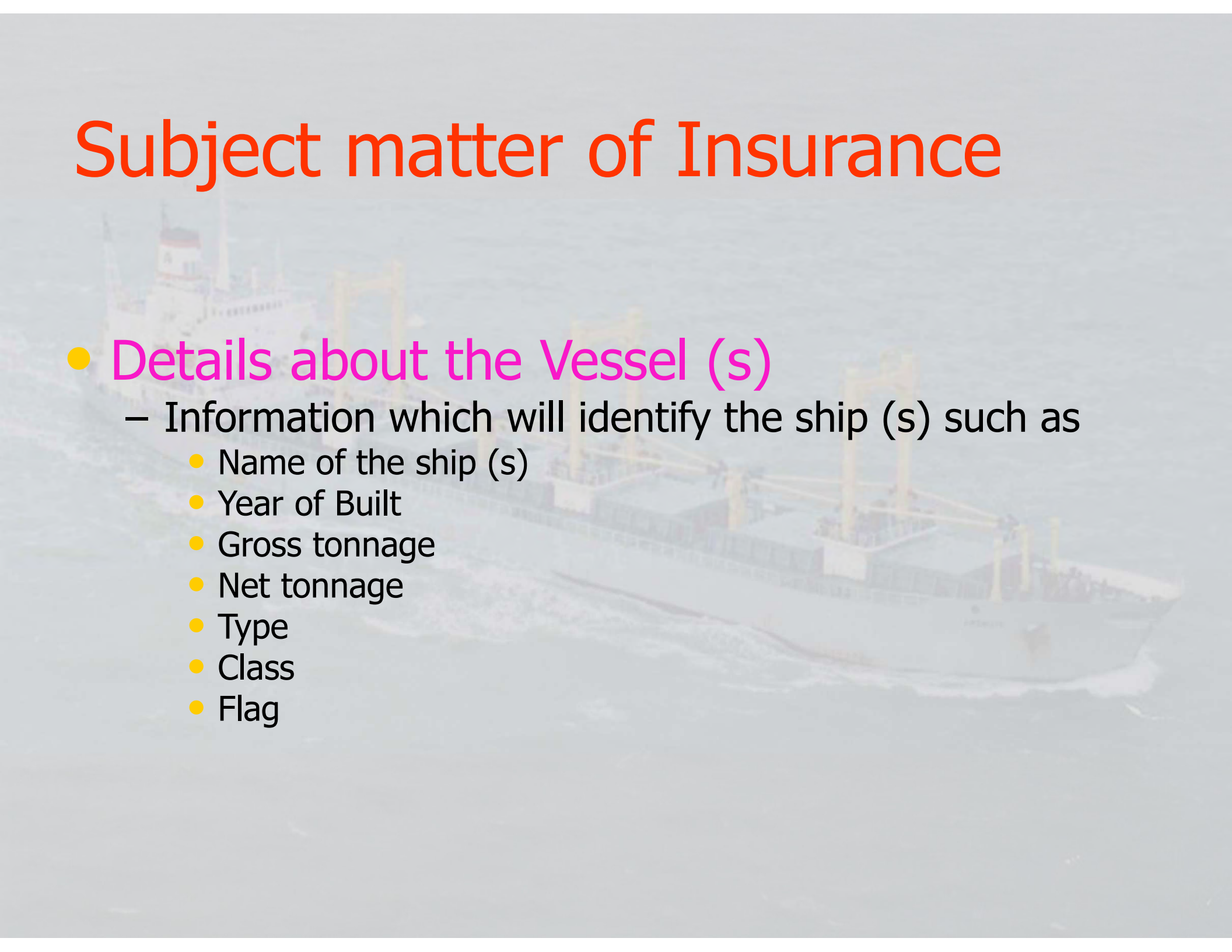
- Names of Parties to the Insurance contract
- Subject matter of the Insurance contract
- Enforcement Clause
- Escape Clause
- Interests of Respective parties to the Insurance contract
- Terms & Conditions of the Insurance contract

# Parties to the Insurance Contract

- **Name of the Insurer**
  - Full style of the Insurance Company must be included. Usually, the Policy document is printed on the Company's Letter head.
- **Name of the Insured**
  - Full style of the Insured must be included. If there are more than one insured all those who have the insurable interest and required by principal insured must be included.
- **Name of Loss Payee, if any**
  - If there is a bank finance or any other person who has a financial stake in the subject matter may be included as Loss payee to the extent of their respective interest as defined in the Notice of Assignment which forms the part of the insurance policy.

# Subject matter of Insurance

- Details about the Vessel (s)
  - Information which will identify the ship (s) such as
    - Name of the ship (s)
    - Year of Built
    - Gross tonnage
    - Net tonnage
    - Type
    - Class
    - Flag



# Enforcement Clause

- Law & Jurisdiction

- This is very important clause. Agreeing to this clause would eliminate **FORUM SHOPPING**.
- It clearly state under what law the policies are to be interpreted and, also state which courts will decide disputes if they arise.

- **Our Hull Policies are usually subject to either English or Canadian Law and Canadian Jurisdiction.**

# Escape Clause

- Cancellation Clause

- In a contract there must be a clause which will give either party a chance to opt out of the contract, if desired.

- In Hull Policies there are three types of cancellations

- Policy cancellation due to nonpayment of premium.
- Policy cancellation for any valid reason by the insurer.
- Policy cancellation for any reason by the insured.

- Usually, 10 days notice in case of nonpayment of premium.
- Usually, 30 days notice in case of any other reason from the insurer.
- Usually, no notice in case of cancellation from the insured.

# Interest of the Insured

- Sum Insured

- It is the value of the subject matter insured. Insured gains satisfaction that the risk is transferred to the insurer under insurance contract and will not be at monetary loss if the subject matter is lost or damaged.

# Interest of the Insurer

- Premium

- It is the consideration which insured is willing to pay in order for the insurer to accept the risk.

**Marine Insurance**

**Policy Conditions**





# Performance Period

- **Period of Insurance**
  - Date and time for the start and end of the period must be clearly specified at the place of Insured.
- **Two systems most commonly used.**
  - Examples
    - From August 1,2021 to July 31,2022 (Both days inclusive)
    - From August 1,2021 12:00AM to August 1,2021 12:01AM at Toronto

# Performance Area

- Trading Area

- Depicts the trading area where the vessel (s) will Operate during the policy period.

- Example

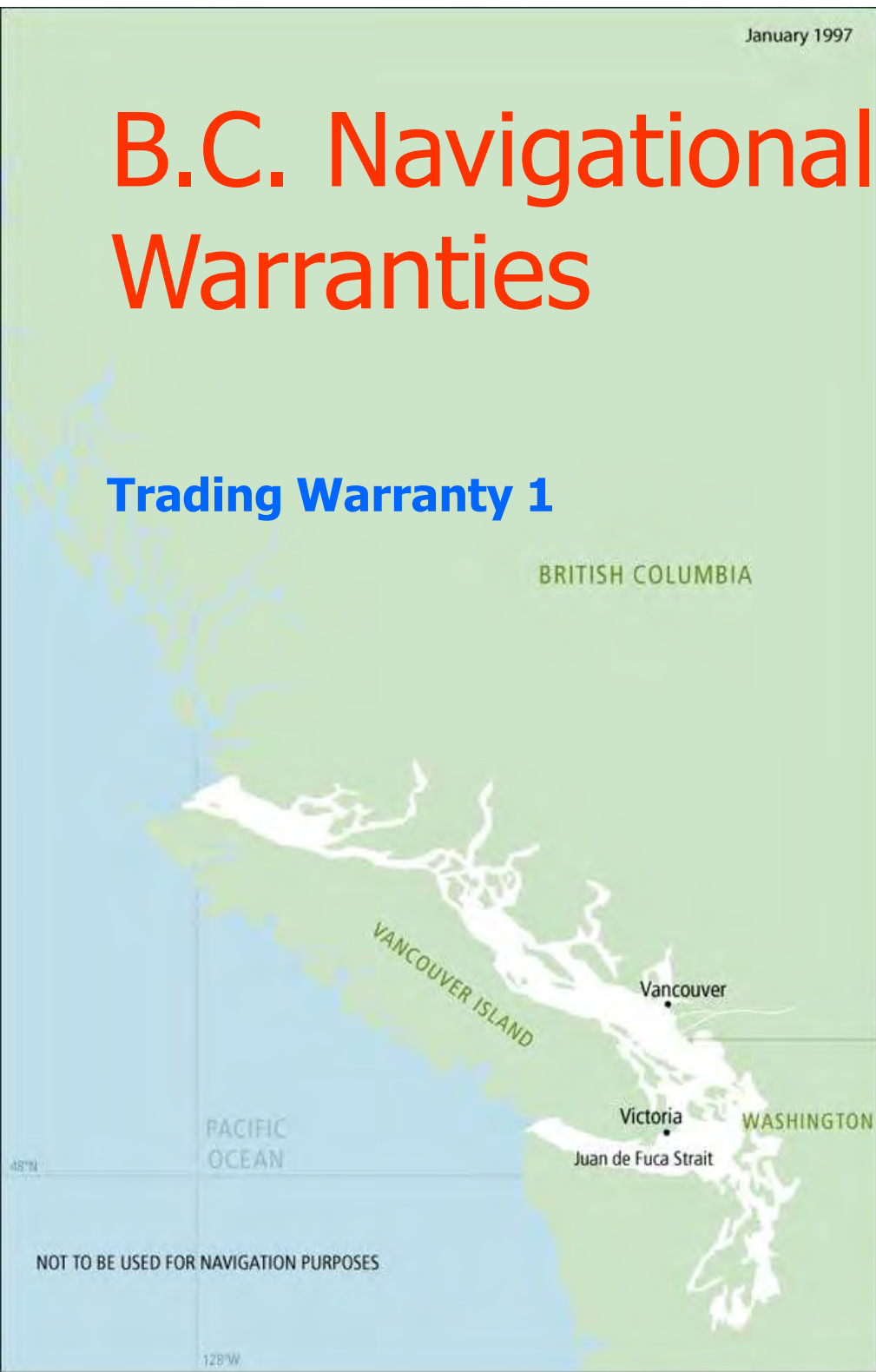
- Navigation limited to the St. Lawrence River and its tributaries, not west of the Port of Montreal and not east of Quebec city port limits

- If Worldwide trading agreed, it must be subject to Institute Trading Warranties.

- If War & Strike cover provided, it must be subject to War Risk Trading Warranties.

# B.C. Navigational Trading Warranties

## Trading Warranty 1



## Trading Warranty 3



# B.C. Navigational Trading Warranties

January 1997

## Trading Warranty 2



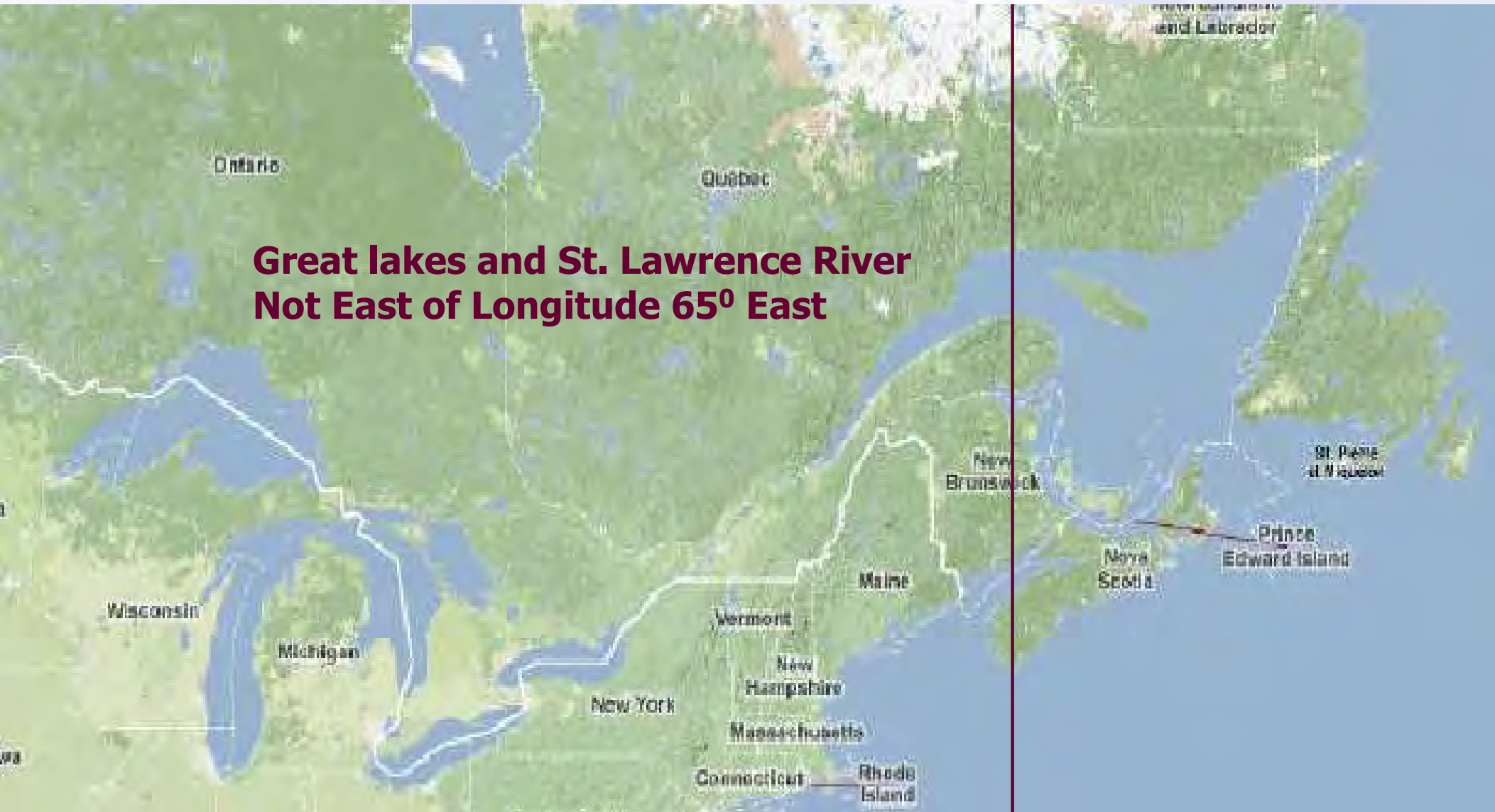
January 1997

## Trading Warranty 2A



# Great Lakes Navigational Trading Warranties

**Great lakes and St. Lawrence River  
Not East of Longitude 65° East**



# Types of Cover

- **All Risks Policies**

- Also known as Comprehensive, Unscheduled perils or Unnamed perils Policies

- Coverage provided by these policies are governed by the Exclusions.

- Anything not excluded in the Exclusion list is covered under the policy.

- **Named Perils Policies**

- Also known as Specified perils, Specified causes of loss policies.

- Coverage provided by these policies are governed by the named perils mentioned in the policy.

- Such policies may also contain Exclusion list to further limit the coverage of perils insured.

# Main Hull Clauses

- All Marine Hull Policies are Named Perils Policies.
- There are many types of cover available.
  - Following are some of the most commonly used Policy wordings.
    - Institute Time Clauses- Hulls **CL280**
    - Institute Time Clauses- Hulls –Restricted Perils **CL280B**
    - Institute Time Clauses- Hulls Total Loss, General Average and 3/4<sup>th</sup> Collision Liability (Including Salvage, Salvage Charges and Sue and Labour) **CL284**
    - Institute Time Clauses- Hulls Total Loss Only (Including Salvage, Salvage Charges and Sue and Labour) **CL289**
    - Institute Voyage Clauses
    - Institute Time Clauses- Hull- Disbursement and Increased Value
    - Institute War and Strikes Clauses – Hulls
    - Institute Time Clauses- Hulls – Port Risks
    - Institute Yacht Clauses CL328
    - Institute Fishing Vessel Clauses CL346

# Hull Clauses in Canadian Market

A large container ship is shown sailing on the ocean. The ship is white with a red hull and is carrying many colorful containers. The ship is moving from left to right across the frame. The background is a vast, blue ocean under a clear sky.

- Institute Time Clauses Hull 1/10/83 CL280
- Institute Fishing Vessel Clauses 20/7/87 CL346
- American Institute Hull Clauses June 2,1977
- CBMU Great Lakes Hull Clauses Sept. 1,1971
- Canadian Hulls (Pacific) Clauses June 15,2005



# Main Sub Clauses

- Navigation /Tow and assist Clause
- Continuation / Termination / Assignment Clauses
- Perils [Actual Named Perils + Causative Named Perils]
- Collision
- General Average
- Salvage
- Sue & Labour
- Deductible
- Total Loss (Constructive, Actual)
- Disbursement Warranty
- **PARAMOUNT CLAUSES** War, Strike, Malicious Act Exclusion

# Coverage & Restriction

## Unique to CBMU Great Lakes Hull Clauses

- Breakdown of motor generators or other electrical machinery and electrical connections thereto
- Ice damage \$ 50,000 or 10% of sum insured whichever less but not less than Main deductible
- Damage to boiler, shaft, machinery & equipment due to negligence of master, crew pilot additional 10% of balance of claim or additional maximum of \$ 50,000
- Repairs to complete within 15 months otherwise u/w not liable for increased repair costs
- Agreed Premium payable by 60 days of attachment or November 1<sup>st</sup>, whichever less.
- Trading warranty and navigational season defined in the policy. Trading between 31<sup>st</sup> March and 21<sup>st</sup> December.
- Permission granted to carry grain without shifting boards on great lakes but not east of 65 Longitude.
- Warranted vessel properly moored to the satisfaction of surveyor.

# Coverage & Restrictions

## Unique to Canadian Hulls (Pacific) Clauses

- Excluding claims due to or resulting from ice and/or freezing howsoever caused on inland waters above ocean tidal influence.
- Cover provided to loss or damage to vessel due to strikers, locked out workmen or persons taking part in labour disturbances, riots, civil commotion or persons acting maliciously.
- 15% of the claim shall be deducted if notice is not given to the underwriter or repairs carried out at a place not agreed by underwriters.



# Coverage & Restrictions

## Unique to ITC Hulls and AIMU Hulls Clauses

### ITC HULLS

- Certain causative perils in other policies which are subject to due diligence changed to Operative Named perils such as Explosion, Accident to nuclear installation, contact with aircraft, falling objects and contacts with land conveyance, dock or harbour equipment.
- Only 3/4<sup>th</sup> collision liability covered.

### AIMU IHC 77

- Breakdown of motor generators or other electrical machinery and electrical connections thereto.
- Deductible applies to aggregate of all claims (including General Average, Salvage, Sue & Labour)
- No provision for automatic termination of insurance if premium not paid.
- Wages & maintenance of crew covered only for removal and to test "average" repairs.
- No penalty of 15% for failure to comply with claims provisions.

# Perils Insured

A large cargo ship is shown sailing on the ocean. The ship is white with a red hull and has a prominent mast with various equipment. The background is a vast, blue sea under a clear sky.

- There are two types of Perils in Hull Clauses.
  - Actual Named Perils
  - Causative Named Perils
- Actual Named Perils
  - Loss or damage to the vessel due to the operation of those perils are covered.
- Causative Named Perils
  - Loss or damage to the vessel caused by and resulting from the perils are covered but the perils actually causing the loss or damage are not covered.

# Perils (Old SG Wording)

Touching the Adventures and Perils which the Underwriters are contented to bear and take upon themselves, they are of the Seas, Men of War, Fire, Lightning, Earthquake, Enemies, Pirates, Rovers, Assailing Thieves, Jettisons, Letters of Mart and Counter-Mart, Surprisals, Takings at Sea, Arrests, Restraints and Detainments of all Kings, Princes and Peoples, of what nation, condition or quality soever, Barratry of the Master and Mariners and of all other like Perils, Losses and Misfortunes that have or shall come to the Hurt, Detriment or Damage of the Vessel, or any part thereof, excepting, however, such of the foregoing perils as may be excluded by provisions elsewhere in the Policy or by endorsement thereon.

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## Men of War

Naval vessels belonging to and maintained by nations.

## Enemies

It includes all damages or losses sustained owing to the hostile acts of an enemy.

## Pirates, Rovers, Assailing Thieves

Sea robbers, wanderers on high seas and robbers using force including mutiny & riot.

## Jettisons

Jettisoning is the voluntary and intentional throwing overboard or away a part of cargo or vessel's equipment to lighten the ship in case of emergency.

## Letter of Mart

Own Government / Nation granting power to attack an enemies' merchant ship in revenge to recuperate own losses.

## Letter of Counter-Mart

Opposing Nation granting power to their citizen(s) to resist and retaliate attacks.

## Surprisals

Loss/damage from actual or attempted capture, seizure, stoppage by enemy.

# Perils (Old SG Wording)

Touching the Adventures and Perils which the Underwriters are contented to bear and take upon themselves, they are of the Seas, Men of War, Fire, Lightning, Earthquake, Enemies, Pirates, Rovers, Assailing Thieves, Jettisons, Letters of Mart and Counter-Mart, Surprisals, Takings at Sea, Arrests, Restraints and Detainments of all Kings, Princes and Peoples, of what nation, condition or quality soever, Barratry of the Master and Mariners and of all other like Perils, Losses and Misfortunes that have or shall come to the Hurt, Detriment or Damage of the Vessel, or any part thereof, excepting, however, such of the foregoing perils as may be excluded by provisions elsewhere in the Policy or by endorsement thereon.

## Takings at Sea

Stopping and taking into port a ship for examination on suspicion of carrying contrabands

## Arrests

Forcibly taking away of the vessel due to political or executive acts

Restraints and Detainments of all Kings, Princes and Peoples

Restraints - Action taken by Government (Kings, Princes and Peoples) to capture, seizures and detention of the ship

Detainment – loss due to detention of a vessel by blockage or possibly quarantine regulations

## Barratry of the Master and Mariners

Wrongful act willfully committed by the Captain or crew to the prejudice of the owner without the connivance of the owner

and of all other like Perils

All other perils of the Like kind

Losses and Misfortunes that have or shall come to the Hurt, Detriment or Damage of the Vessel



# Additional Perils (Inchmaree)

- Bursting of boilers
- Breakage of Shaft
- Latent Defects
- Breakdown of motor generators & electrical machinery
- Accidents in loading, discharging, handling cargo
- Explosion on board or elsewhere
- Contact with land conveyance, dock/ harbour equipment installation
- Negligence of Master, Officers, Crew
- Negligence of Pilots
- Negligence of Repairers or Charterers
- Contact with Aircraft, Helicopters or objects falling therefrom

# Marine Insurance

## Perils Insured



# Perils

## Perils of the Seas



An aerial photograph showing a flooded area with a road and several boats. On the left, a road runs diagonally, with several boats, including fishing vessels, damaged and partially submerged. In the center, two large blue and yellow fishing boats are docked at a concrete pier. To the right, the water is murky and contains some debris. The overall scene suggests a disaster or severe weather event.

**Perils**

**Perils of the  
Seas,  
rivers, lakes,  
other  
Navigable waters**

# Perils

## Fire



Perils

Fire



Perils



**Explosion**

# Perils



**Explosion**

**16 6:15AM**



# Perils



**Jettison**

**Act of throwing overboard part  
of cargo to save ship.**

Perils



Jettison



**Perils**

**Piracy**

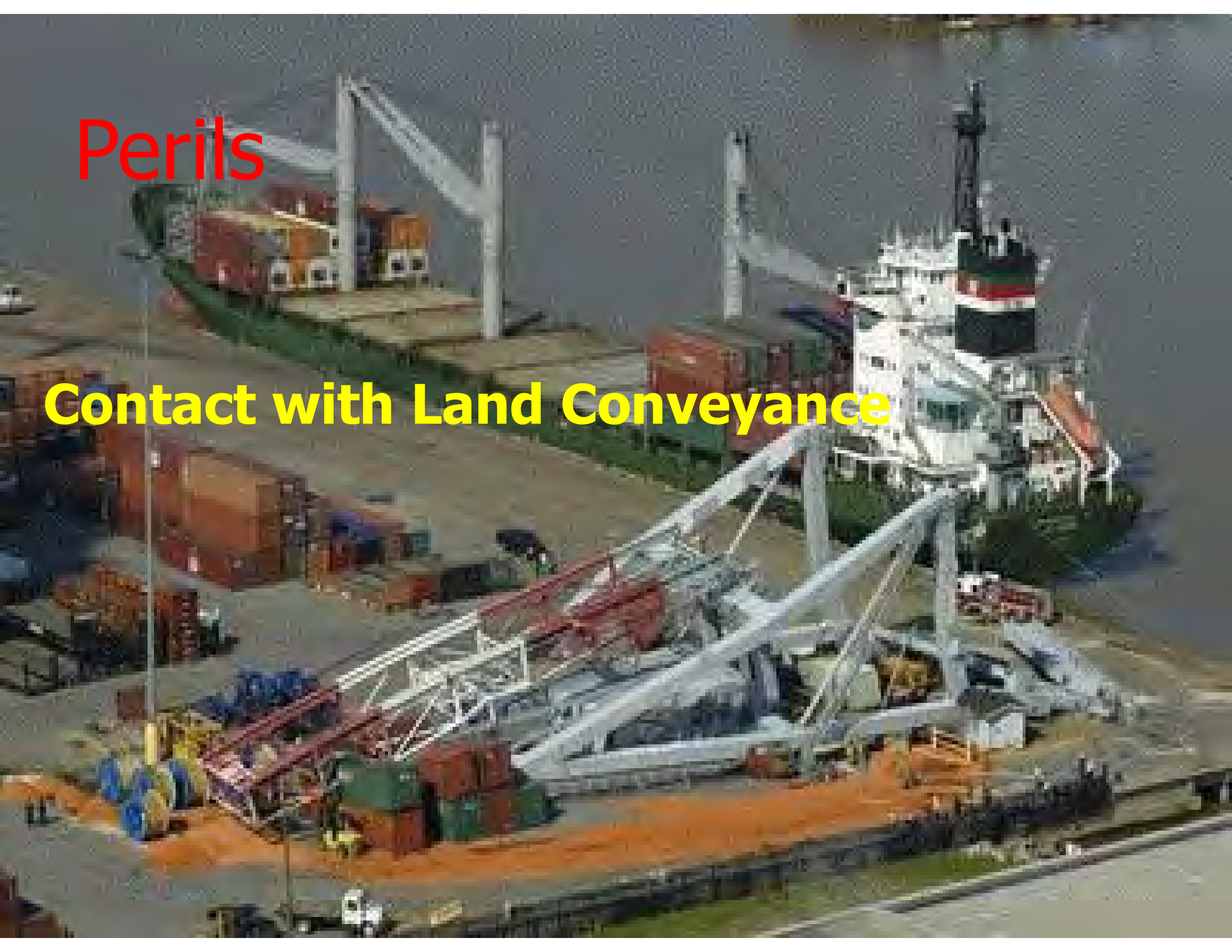
Perils

Contact with Land Conveyance



**Perils**

**Contact with Land Conveyance**



**Perils**

**Earthquake**



**Perils**

**Lightning**



Perils



Accident in Loading, Discharging



**Perils**

**Accident in Loading, Discharging**



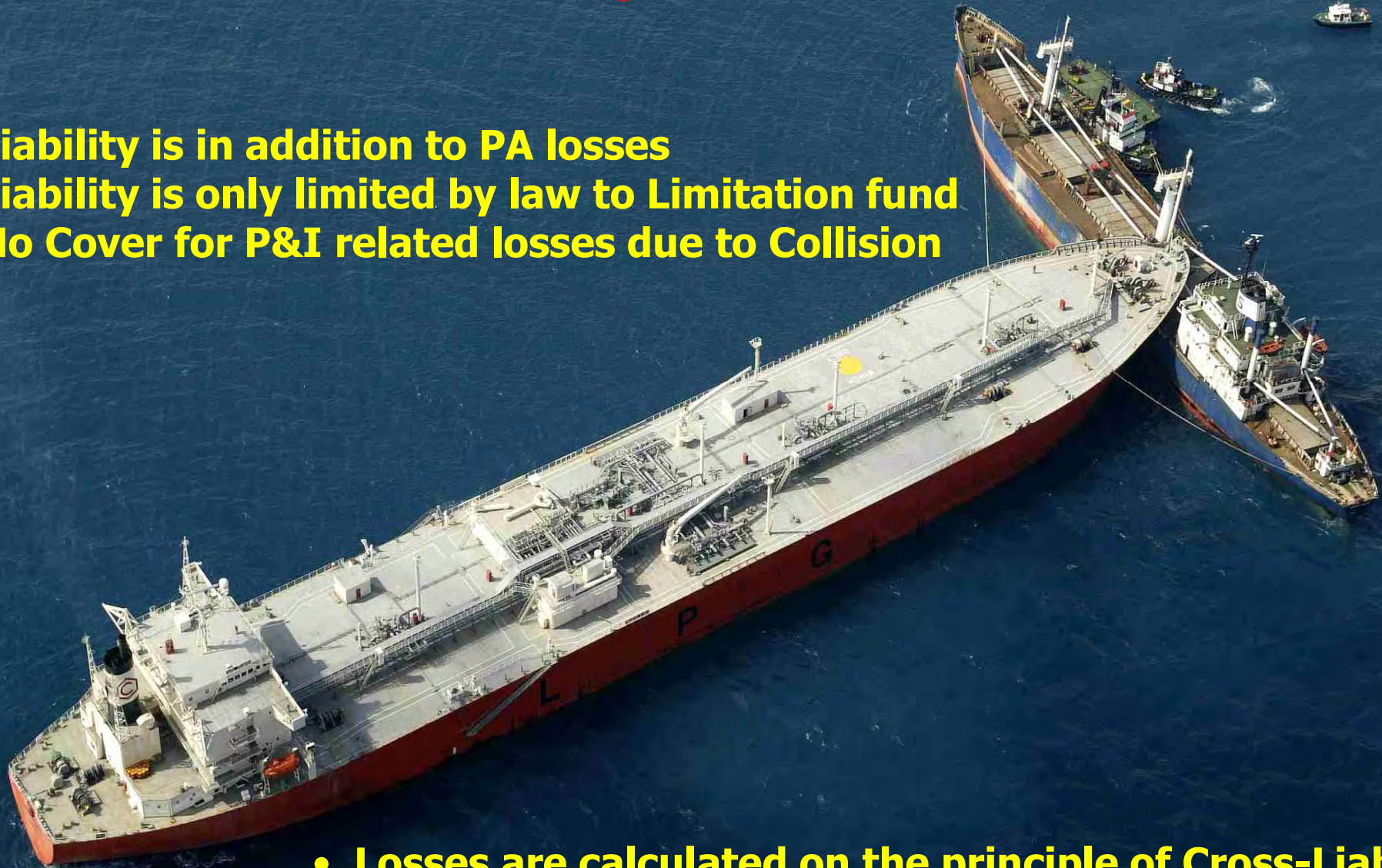
# Perils

## Accident due to shifting of cargo



# Collision Liability

- Liability is in addition to PA losses
- Liability is only limited by law to Limitation fund
- No Cover for P&I related losses due to Collision



- Losses are calculated on the principle of Cross-Liabilities
- Includes Legal Costs

# Cross Liabilities – How it works?

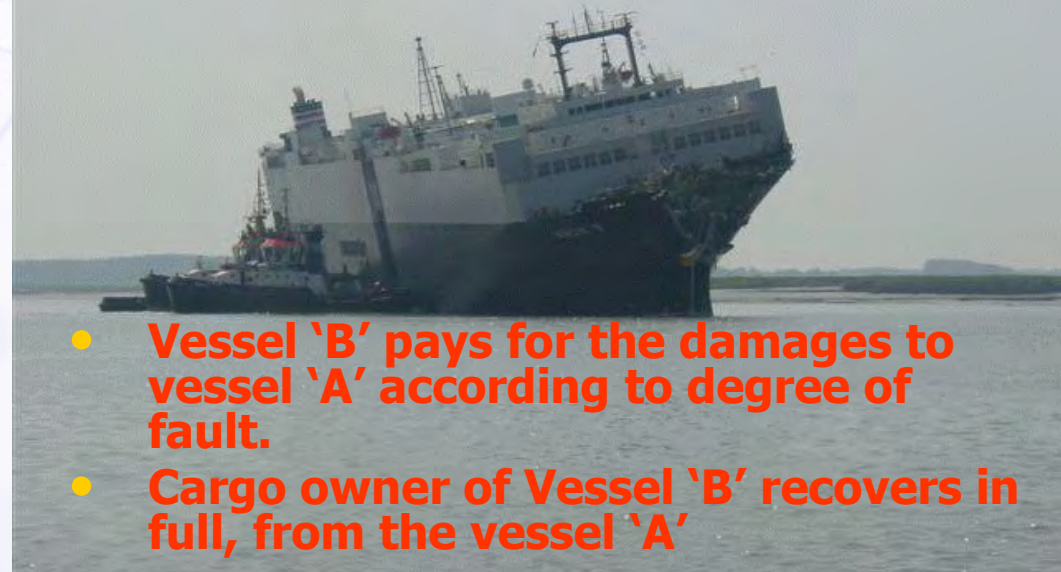
- Degree of Fault of each vessel is determined.
- Cargo owners of each vessel can not recover from their respective carrying vessel under their contract of carriage.
- However, Cargo owners can recover in full, from the other vessel.

A



- Vessel 'A' pays for the damages to vessel 'B' according to degree of fault.
- Cargo owner of Vessel 'A' recovers in full, from the vessel 'B'

B



- Vessel 'B' pays for the damages to vessel 'A' according to degree of fault.
- Cargo owner of Vessel 'B' recovers in full, from the vessel 'A'

# Cross Liabilities – How it works?

## SIMPLE EXAMPLE

A

- Vessel 'A' Loss \$400,000
- Degree of fault 50%
- Vessel 'A' is liable 50% of \$1,000,000
- Vessel 'A' to pay to Vessel 'B' \$500,000
- END RESULT
- Own Loss = (\$400,000)
- Amount Paid = (\$500,000)
- Amount Received = \$200,000
- LOSS SUFFERED = (\$700,000)

B

- Vessel 'B' Loss \$1,000,000
- Degree of fault 50%
- Vessel 'B' is liable 50% of \$400,000
- Vessel 'B' to pay to Vessel 'A' \$200,000
- END RESULT
- Own Loss = (\$1,000,000)
- Amount Paid = (\$200,000)
- Amount Received = \$500,000
- LOSS SUFFERED = (\$700,000)

- Calculation based on Single liability will be the same, However
- When either of the two vessels or both vessels exercise Limitation of Liability or have other uninsured losses then Calculation based on Cross liability is more equitable than Single liability method. Hence the reason of adopting Cross liability method.

# General Average

- VOLUNTARY
- RESULT OF A PERIL – *Imminent Danger*
- MORE THAN ONE PARTY INVOLVED
- VENTURE MUST BE SUCCESSFUL – *All parties to benefit*

- What is General Average?

- Unique to Marine Insurance ONLY.
- It is a **voluntary** expenditure or sacrifice of cargo or vessel
- Generally made in the face of **a peril**,
- To **protect all interests** involved in the venture.
- When such a loss occurs, the loss is pro rated to all the interested parties according to the **values saved**.

# Salvage & Salvage Charges



- **What is Salvage?**
  - Award given to salvors for saving the property/ vessel at the time of peril.
- **What are the ingredients of a Salvage?**
  - The vessel must be in **real danger**,
  - The services must be **rendered voluntarily**,
  - The salvage must be **successful**
- There are two types of salvage
  - Contractual Salvage
  - Pure Salvage
- **What are Salvage Charges?**
  - Expenses incurred in preventing a loss by perils insured against. It is not a Salvage Award and does not have to meet the criteria of Salvage.

# Sue & Labour

In order to save whatever is left of the vessel. Insured hired tug to tow the vessel and hired Ice breaker to assist in towing in area covered by Ice.

All towing charges and charges paid to Ice breaker are covered in addition to the actual loss, under Sue & Labour.





Sue & Labour – Salvage Ops – General Average  
ALL present in ONE INCIDENT

**N** The National

# Types of Total Losses



- **Actual Total Loss**

- A loss is an actual total loss

- if the subject-matter insured is destroyed or is so damaged as to cease to be a thing of the kind insured
- or
- if the insured is irretrievably deprived of the subject-matter.

# Types of Total Losses



- **Constructive Total Loss**

- Damage to vessel which is so great that the cost of recovering and repairing the vessel would exceed the insured value.

# Types of Total Losses

- **Compromised Total Loss**

- A negotiated total loss settlement between the insured and the insurance company under unusual circumstances,
- For example: a vessel owner accepts a settlement of less than the face value of the hull policy and retains title to the vessel.



# Mandatory Conditions

- Mostly imposed by reinsurers and are used worldwide by marine insurance industry.
- Such Clauses are:
  - Institute Radioactive contamination, chemical, biological, biochemical, electromagnetic weapons exclusion clause. CL370
    - The purpose of the clause is to exclude losses due to mentioned events.
  - Institute Cyber attack exclusion clause. CL380
    - Computer use is now widespread on ships and this clause excludes and loss or damage due to cyber attack, viruses, malicious programs.
  - Terrorism Exclusion Clause
    - War and strikes clauses cover Terrorism. Due to recent developments reinsurers require this be excluded from hull policies.
  - Marine Hull Electronic date recognition endorsement.
    - Under this endorsement any loss / damage attributable to the failure to recognize date change is excluded.

# Other Conditions

- They are usually operative conditions.
  - Depending upon individual risk, the underwriters put some conditions to bring the risk within the underwriting parameters
    - As required by reinsurers.
    - As is normally used within the local market.
    - To restrict the insured to better manage the risk.
- Examples:
  - Excluding crew, cargo and passenger liabilities.
  - Canceling returns only.
  - Vessel to carry full manning as per minimum safe manning certificate.

# Deductibles

- All Hull policies carry deductibles.
  - It is amount of claim / loss which insured has to bear before the policy triggers in.
- Deductibles are required:
  - To ward off smaller claims.
  - To reduce extra administrative work.
  - To make insured more risk averse.
- Sometimes Additional Machinery Deductibles are also incorporated.
  - Usually on Older vessels.

**Marine Insurance**

**Protection  
and  
Indemnity**





# Protection & Indemnity

## History

- Started **mid nineteenth century** as “Protection Clubs” to cover 1/4<sup>th</sup> Collision Liability and damage to docks / piers not covered by H&M insurance.
- Clubs operated on mutual or non-profit basis.
- Members were the ship owners.
- Later towards late nineteenth century, “Indemnity Clubs” were formed to meet cargo liability exposure.
- Liability regime became more complex and other liabilities arising out of ship’s operations were also included.
- Later fusion of both clubs gave rise to “Protection & Indemnity Clubs”, the name still used.
- Traditionally 20<sup>th</sup> February is the renewal date for P&I insurance. This is the date when Baltic sea is expected to be ice free for navigation.
- 90% of World fleet is entered with 13 International P&I Clubs.
- International Group Club is the ‘Club of Clubs’ i.e., of the 13 P&I Clubs.

The background of the slide features a faint, light blue compass rose. The compass rose is centered in the upper half of the image and shows cardinal directions: 'N' for North, 'E' for East, 'S' for South, and 'W' for West. The needle of the compass is visible, pointing towards the North. The overall background has a soft, hazy texture.

# Protection & Indemnity History

# How Clubs charge Members?

- Originally Ship owners contributed towards overall claims exposure of the club according to the tonnage of vessels irrespective of loss profile / records.
- Now Calls are calculated on tonnage but also considering the loss profile / records of the ship owner.
- Such contribution is called "Calls"
  - Initial Calls
  - Supplementary Calls
  - Release Calls

# How Clubs Operate?

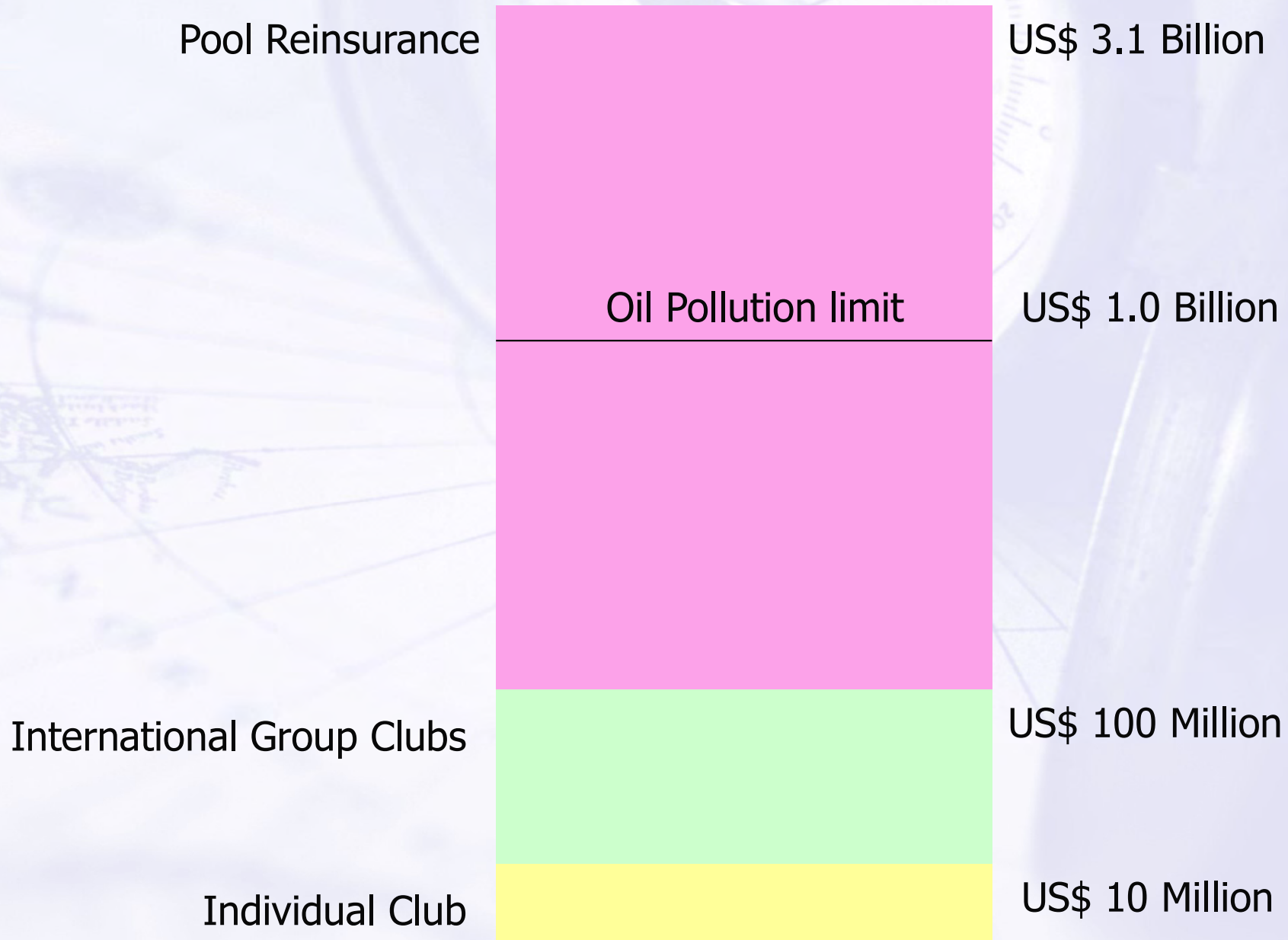
- **Directors**

- They are the Ship owners, Charterers whose ships are entered in the Club.

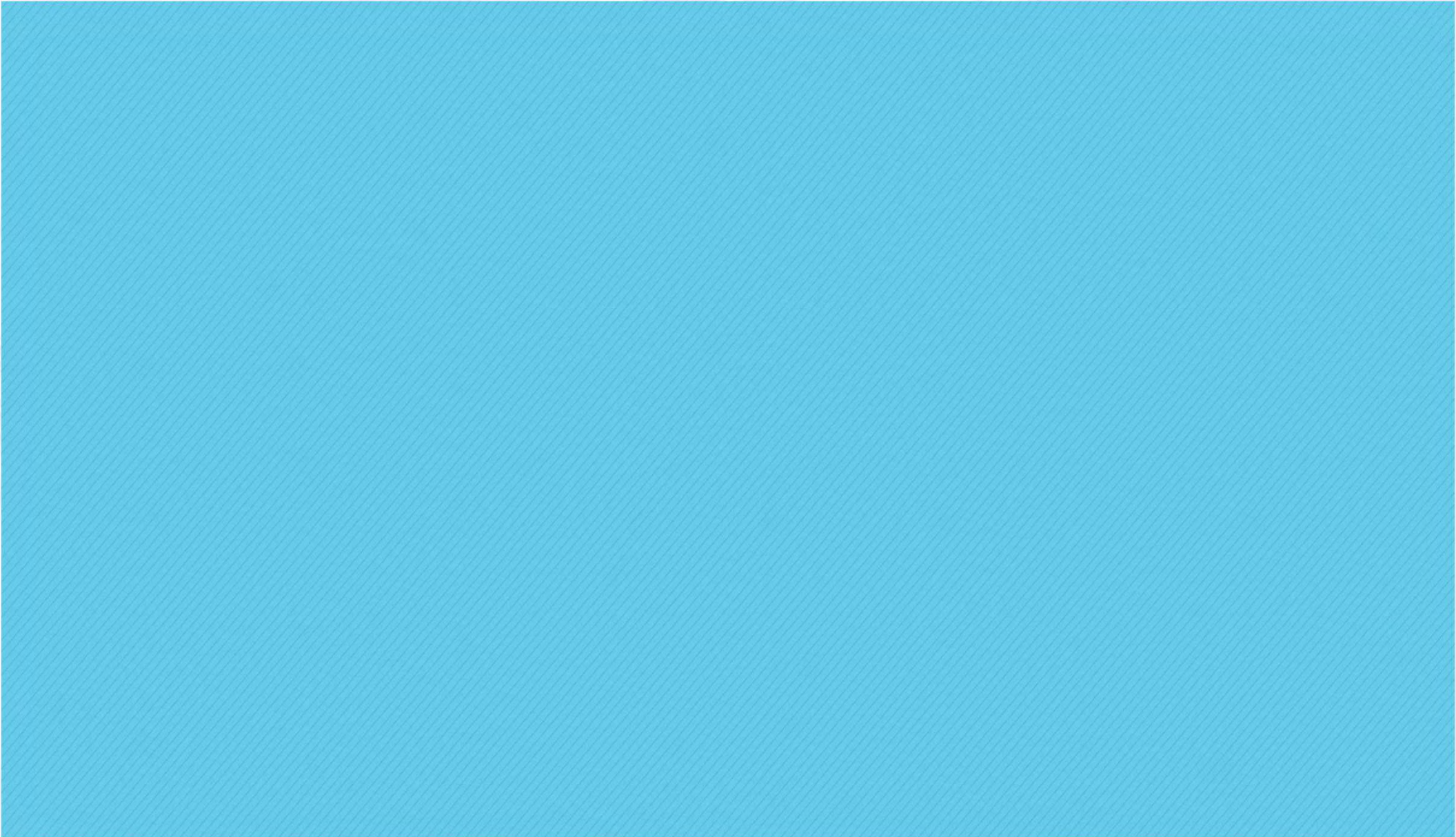
- **Managers**

- Ship owners are not professional and do not have time to run day to day business of the club. Hence, they hire professionals to run and manage the club along the lines of mutuality and fairness to all the members of the club.

# How Clubs offer Unlimited Cover?



# How Clubs offer Unlimited Cover?



# Protection & Indemnity

P&I cover is offered

- **By Mutual Clubs**

Very Wide Coverage as Clubs operates as not for profit organization run by the members.

- **By Insurers on fixed premium basis on similar cover as offered by Clubs**

Not as wide as Clubs' coverage as insurers operate for profit.

- **By Insurers as limited cover usually as rider to existing hull cover.**

Very limited cover most of time excluding crew, cargo and pollution liabilities.

# Hull Clauses in Canadian Market

- Canadian (Pacific) Protection And Indemnity Clauses - June 1, 2007
- Institute Protection and Indemnity Clauses Hulls – Time CL344
- Institute Fishing Vessel Clauses CL346
- AIMU 23 - Protection and Indemnity (P and I) Clauses June 2, 1983
- Protection And Indemnity Clauses SP-23 (Revised 1/56)



# Protection & Indemnity

## Protection

- Is in respect of liabilities arising from **the ownership of the vessel**.
- Somehow the loss / damage is caused by the ship itself.

## Indemnity

- Is in respect of liabilities arising from the employment of the vessel.
- The loss / damage is related to the **operations of the ship** and is caused by anything other than the ship per se.

*Marine Insurance*

**Protection**



# Protection Fixed Objects



Loss of or damage to any **fixed** or  
movable object or property of others.

# Protection Floating Objects

Loss of or damage to any fixed or  
**movable object** or property of others.



An aerial photograph showing a residential area with significant damage. In the center, a large building has a partially collapsed roof, with debris scattered around. To the left, a building with a corrugated metal roof is visible. In the foreground, a dark, curved structure, possibly a railing or part of a vehicle, is partially visible. The surrounding area includes other houses and some greenery.

# Protection Property

**Loss of or damage to any fixed or  
movable object or **property of others.****

# Protection Bridges

Loss of or damage to any **fixed** or  
movable object or property of others.



# Protection Quays



**Loss of or damage to any fixed or  
movable object or property of others.**

# Protection Docks



Loss of or damage to any fixed or  
movable object or **property of others.**



Protection  
Property



Loss of or damage to any fixed or  
movable object or **property of others.**

# Protection

Loss of or damage to any fixed or movable object or property of others.

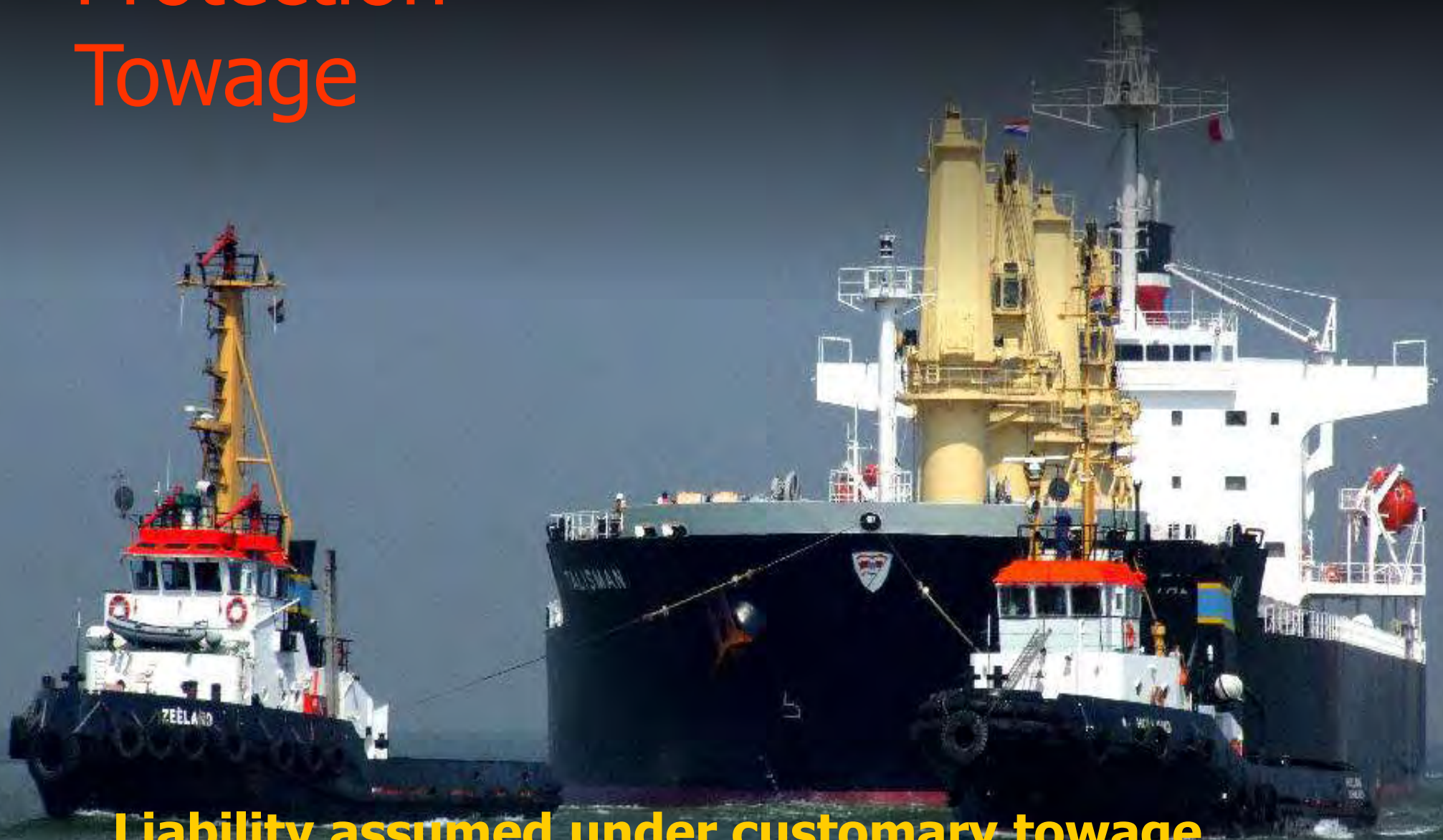
*Loss of or damage to any fixed  
or movable object or property of others*

Protection  
Wreck

Wreck  
Removal



# Protection Towage



**Liability assumed under customary towage contract while entering or leaving port**

# Protection Salvage

A photograph of an offshore oil rig deck. The structure is composed of yellow and red metal beams and columns. A long, narrow walkway with a metal railing extends from the foreground towards the background. In the distance, another part of the rig or a support vessel is visible against a cloudy sky and the ocean. The overall scene is industrial and maritime.

**Liability under Salvage Agreement for  
unsuccessful or uncompleted services.**

# Protection 1/4<sup>th</sup> Collision

**Liability arising from Collision,  
Usually 1/4<sup>th</sup> of Collision Liability.**



# Protection Oil Pollution



**Liability arising from pollution.**

# *Marine Insurance*

## **Indemnity**





# Indemnity Life Salvage

**Payment for life salvage.  
Expenses for saving life  
at sea.**



# Indemnity Medical Evacuation



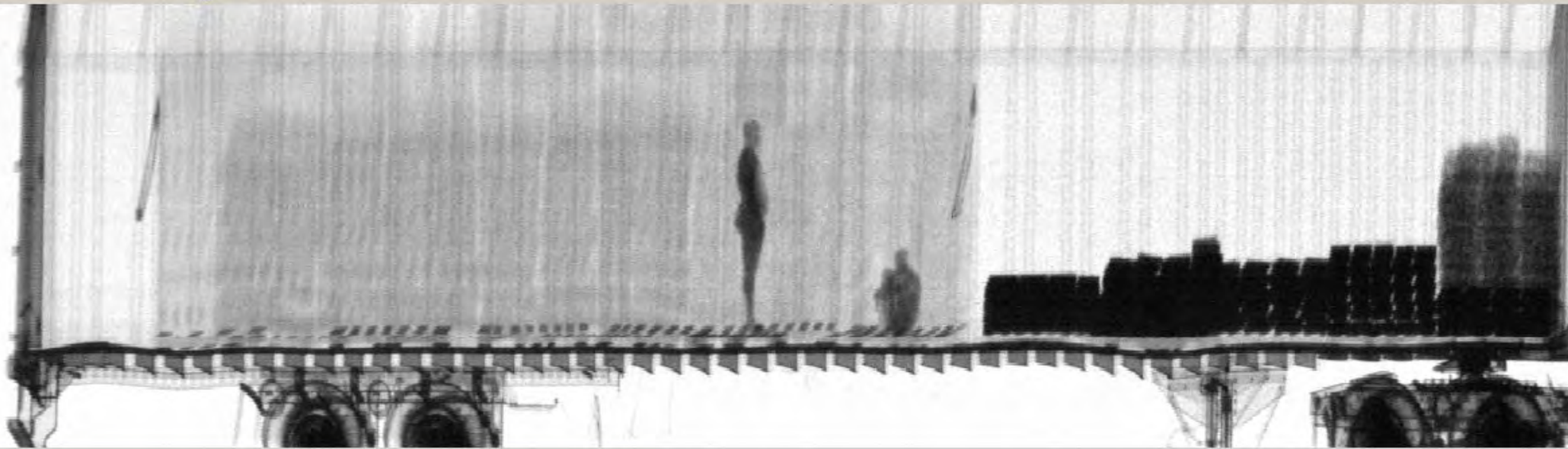
**Loss of life,  
Personal injury.**

# Indemnity Stowaways

**Cost & Expenses including diversion of ship  
relating to stowaways.**



# Indemnity Stowaways



**Cost & Expenses including diversion of ship relating to stowaways.**

# Indemnity Ship Diversion



**Deviation from original voyage to land sick, injured person or stowaways.**

# Indemnity Unlawful Ship Detention

**Expense / demands for unlawful detention of ship.**



# Indemnity Officers / Crew

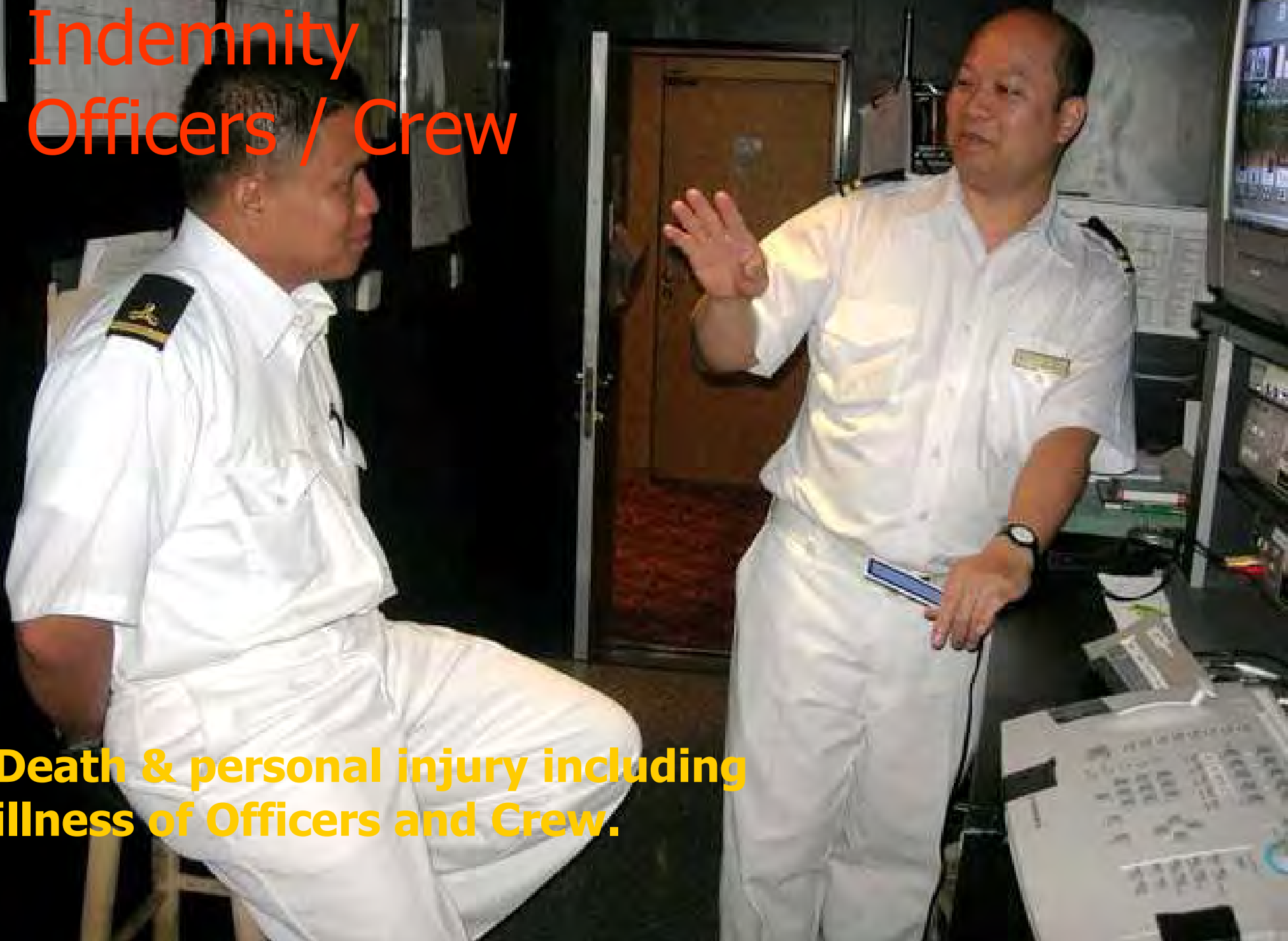


**Death & Personal injury including  
illness of Officers and Crew.**

Cape Veni Medical Evacuation  
03.04.11 Zamboanga, Philippines  
[www.airgurus.com](http://www.airgurus.com)

# Indemnity Officers / Crew

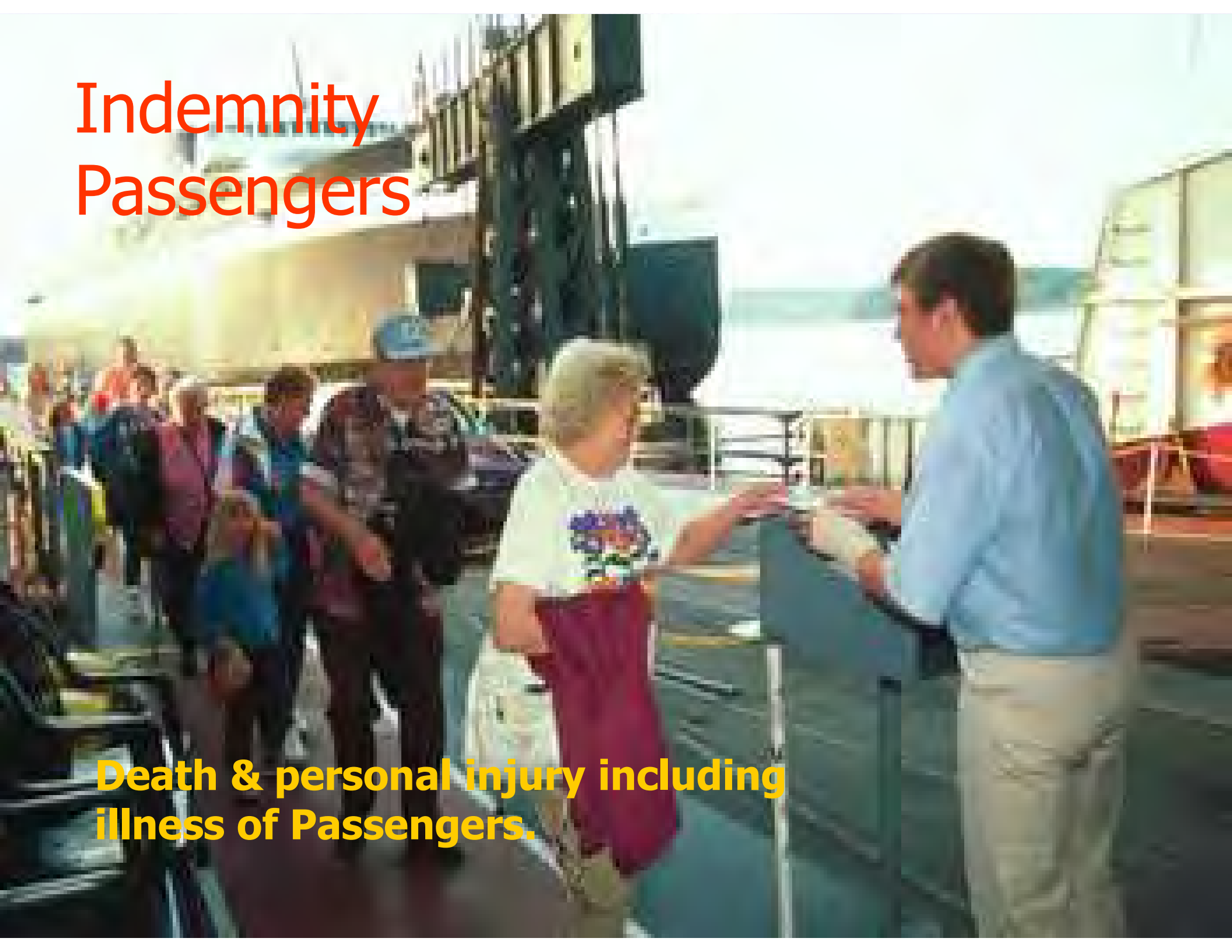
**Death & personal injury including  
illness of Officers and Crew.**





# Indemnity Passengers

**Death & personal injury including  
illness of Passengers.**



# Indemnity Passengers

**Death & personal injury including  
illness of Passengers.**



# Indemnity Third Parties

**Death & personal injury to any  
person other than the crew.**



# Indemnity Cargo

**Liability for the damage to the cargo.**



# Indemnity Cargo



**Liability for the damage to the cargo.**

# Indemnity Cargo

**Liability for the non delivery  
of the cargo.**



# Indemnity



- Additional expense due to outbreak of infectious disease.
- Fines imposed upon vessel for breach of statute or regulations.
- Legal cost of defending liability.

# *Marine Insurance*

## **War & Strikes**





# War & Strikes - Perils

War, Civil War,  
Revolution, Rebellion,  
And likes.



# War & Strikes - Perils

War, Civil War, Revolution, Rebellion, And likes.

Civil War

War



Rebellion

Revolution



# War & Strikes - Perils

**Capture, Seizure,  
Arrest, Restraint or,  
Detainment**



# War & Strikes - Perils



Capture, Seizure, Arrest, Restraint or, Detainment

# War & Strikes - Perils

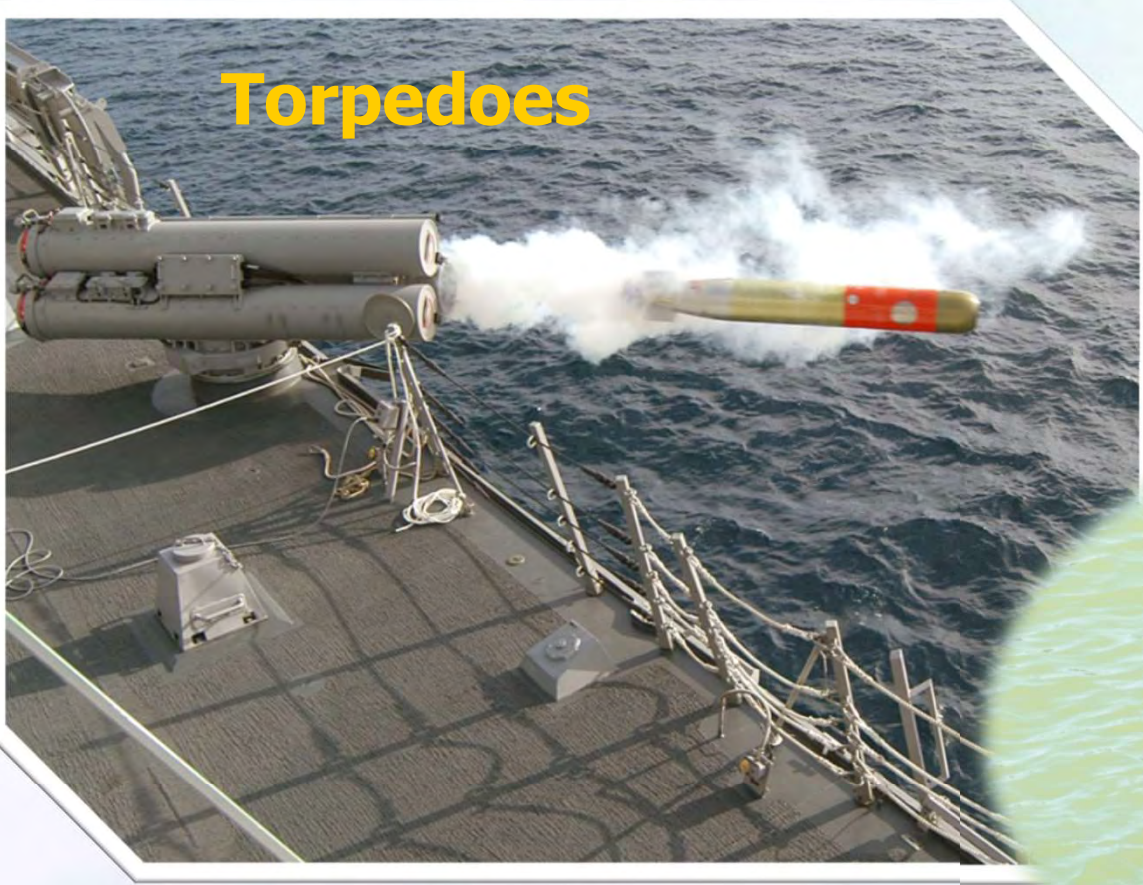
**Derelict mines,  
torpedoes, bombs etc.**



# War & Strikes - Perils



**Torpedoes**



**Bombs**

**Derelict mines**



**Derelict mines, torpedoes, bombs etc.**

# War & Strikes - Perils

Strikers, locked out workmen,  
Riots, Civil Commotions



# War & Strikes - Perils

**Terrorist, Any person acting maliciously or from a political motive.**





# War & Strikes - Perils



**Terrorist, Any person acting maliciously or from a political motive.**

# War & Strikes

An aerial photograph of a US Navy fleet at sea. The fleet includes a large aircraft carrier in the center-right, several destroyers, and a smaller ship in the distance. The ships are moving from left to right, leaving white wakes in the dark blue water. The sky is clear and blue.

## **Expropriation:**

The action by the state or an authority of taking property from its owner for public use or benefit.

## **Confiscation:**

To seize private property as a penalty, by Government for Public treasury

**Confiscation or Expropriation**

# War & Strikes

## Confiscation or Expropriation

### **Expropriation:**

The action by the state or an authority of taking property from its owner for public use or benefit.

### **Confiscation:**

To seize private property as a penalty, by Government for Public treasury

# War & Strikes

A photograph taken from the deck of a large naval vessel, likely an aircraft carrier, looking out over the ocean at sunset. The sun is low on the horizon, creating a bright, golden glow that reflects off the water. In the foreground, the complex structure of the ship's deck is visible, including railings, pipes, and various pieces of equipment. In the middle ground, another large naval ship is visible, moving away from the viewer. The sky is filled with soft, wispy clouds, and the overall atmosphere is serene yet powerful.

## **Detainment**

**If vessel remains detained for more than 12 months. Vessel is considered CTL.**

# War & Strikes

**14 Vessels trapped for 8 years in the Suez Canal during, 6 days war between Egypt and Israel in 1967**

## **Detainment**

**If vessel remains detained for more than 12 months.  
Vessel is considered CTL.**

# War & Strikes

So is.....

**I am terminating my Presentation.**

*Thank you very much to be with me*

**Coverage is AUTOMATICALLY Terminated, if there an outbreak of war between Nuclear Club nations.**



# Practical Underwriting

# Information to Collect

- Details about the Owners & Ship's Flag
- Details about the Ship
- Operations of Ship, Trade, Cargo etc.
- Where the Ship will be operating
- Ship's Value
- Loss Records



# Ship's Valuation

Marine Policies are Agreed Value Policies. It modifies the Principle of Indemnity.

Values must not be too high.

- If too high without valid reason such as scarcity of the type of vessel, market demand etc, there is an element of MORAL HAZARD.

Values must not be too low.

- If too low, it will not generate enough premium to justify underwriting the risk.
- Cost of repairing a damage will be closer to sum insured where the vessel might be declared Constructive Total Loss.

# How Sum Insured is Evaluated

Ship's value is determined according to:

- Usefulness of vessel to the owner
- Certification status
- Classification status
- Trade in which ship is employed
- Availability of the similar vessel on the market
- Market forces

How an underwriter, would gauge the approximate value of the ship?

- Find the scrap value of the ship
- Markup for Certification and flag status
- Markup for Classification status
- Markup for Scarcity of the ship in the market
- Adjust for Freight market conditions

Condition & Valuation Survey

# How underwriters calculate premium?

Many ways depending upon experience.

## Method 1

- Most commonly used is as per Joint Hull formula.

Premium rate = TLO rate (usually 0.5% of Sum Insured)

PLUS

PA rate (FDWT x Cost of Repairs per ton, About \$5-\$10/ton)

PLUS

Age Loading

- Certain discounts are applied for ownership, fleet etc.

# How underwriters calculate premium?

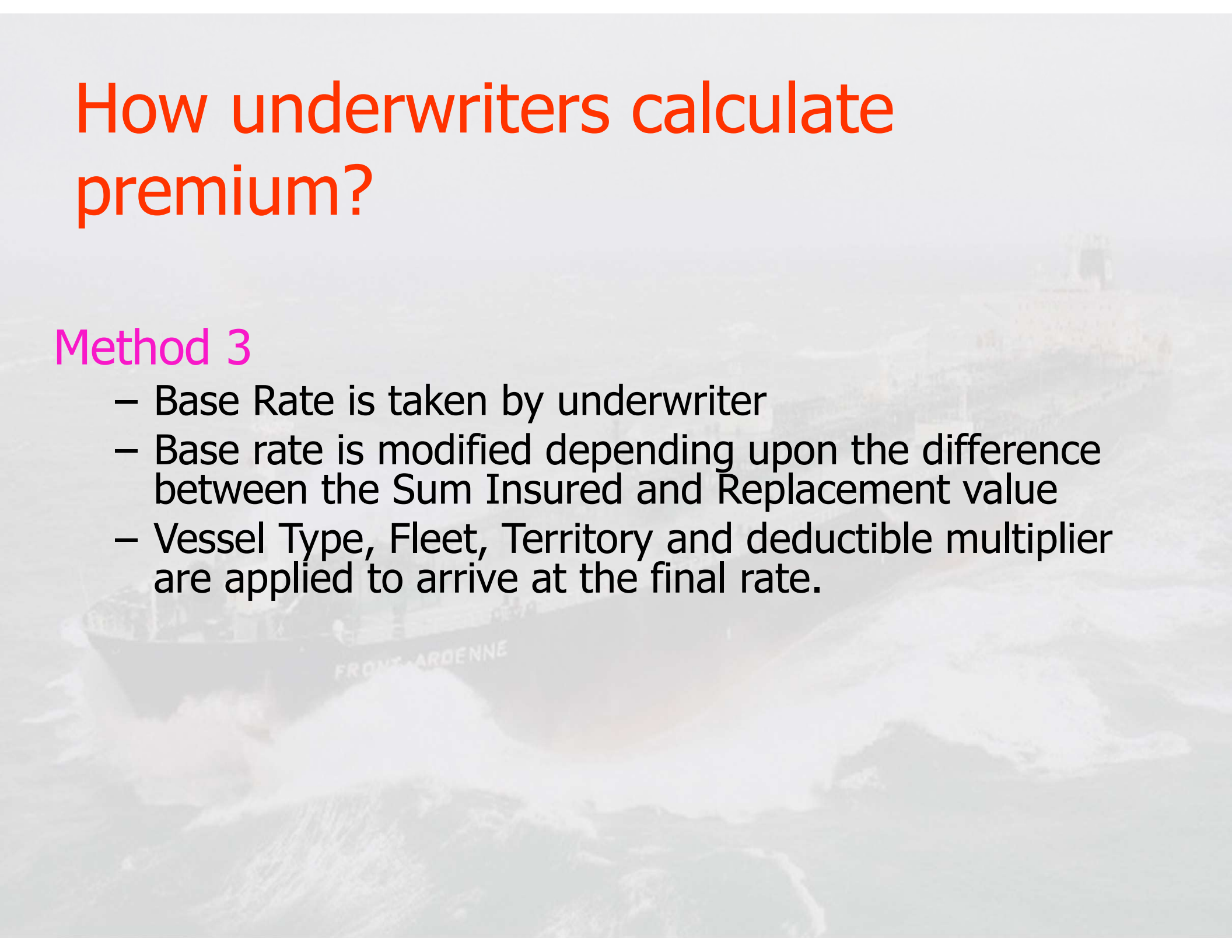
## Method 2

- Base Rate is taken by underwriter
- Total Loss rate is taken usually 0.5%
- P.A. rate is taken as 65% of the Base Rate.
- Replacement value of the vessel is estimated
- Difference between the Replacement value and Sum insured is determined
- Total Loss Premium is determined as  
$$\text{TLO Rate} \times (50\% \text{ of Difference of Replacement value \& Sum Insured})$$
- P.A. Premium is determined as  
$$\text{P.A. Rate} \times (50\% \text{ of Difference of Replacement value \& Sum Insured})$$

# How underwriters calculate premium?

## Method 3

- Base Rate is taken by underwriter
- Base rate is modified depending upon the difference between the Sum Insured and Replacement value
- Vessel Type, Fleet, Territory and deductible multiplier are applied to arrive at the final rate.



# How underwriters calculate premium?

## Method 4

- Most commonly used for tugs, high speed vessels, specialized vessels
- Rating divided into three component
- 1<sup>st</sup> component depends upon specialty of vessel such as Engine power for tugs, designed speed for high-speed vessels, carrying capacity of passengers, Cars/units for Ro Ro etc. Example \$ x.xx per BHP or Kilowatt hour or Bollard pull or knots
- 2<sup>nd</sup> component for Hull \$ x.xx per GRT
- 3<sup>rd</sup> component for Total Loss i.e. % of sum insured.
- The sum of these three component gives premium for the risk.
- Certain discounts and loading are applied to the premium for Area, Vessel age and some other factors.

# How underwriters calculate premium?

## Simple Method of Estimating Base Rates

Average Premium calculation factor =  
Overall Premium calculation factor (sum insured) / No. of Risk units

Average Claims Amount (Severity of claims) =  
Overall Claims amount / No. of Claims

Average Claims Frequency =  
No. of Claims / No. of Risk units

### **(Base Rate without loading)**

Weighted Average Claims ratio =  
Overall Claims amount / Overall Premium calculation factor

Weighted Average Claims Degree =  
Average Claims amount / Average Premium calculation factor