MARINE INSURANCE

Marine Insurance refers to where the insurer compensates the insured when the latter suffers from financial loss from marine perils against the premium paid by the insured to the insurer. It covers the loss of ship or the vessel as well as the goods or cargos which are being transported by land, air or water. Marine Insurance is the oldest form of Insurance; it originated in 1347 in the form of Bottomry and was legally regulated in 1369. Under bottomry policy the ship is protected from financial loss of his ship was destroyed. It had its origin in Roman and Greek Time and was developed in England in late 1600's when England became an important port of Trade. Lloyd's Coffee House in England was where the standardization of clauses of took place and laid the foundation of Maritime Insurance Market and giving it a legal identity. With globalization and liberalization in today's time and movement of goods across nations, the importance of Marine Insurance has increased manifold. It provides protection to the various members and intermediaries involved in export and import of goods. The Marine Insurance in India is regulated by Marine Insurance Act, 1963 which is based on Marine Insurance Act, 1906 of United Kingdom.

Section 3 of Marine Insurance Act 1963 defines Marine Insurance as "A contract of marine insurance is an agreement whereby the insurer undertakes to indemnify the assured, in the manner and to the extent thereby agreed, against marine losses, that is to say, the losses incidental to marine adventure."

A contract of marine insurance may, by its express terms, or by usage of trade, be extended so as to protect the assured against losses on inland waters or on any land risk, which may be incidental to any sea voyage.

They are various types of sale of contract between the buyer and the seller in case of trade. It depends on the nature of the sale contract, who is responsible for the purchasing the Insurance contract. The various types of sales contract are:

<u>Free on Board (F.O.B)</u>: It refers to when the seller of the goods is responsible for the goods till they are boarded on the vessel on seller's port and thereafter the responsibility lies with the buyer for shipping the goods to his place. The buyer will be the insured here.

<u>Cost Insurance and Freight (C.I.F)</u>: In this the invoice generated by the buyer includes freight charges i.e. shipping goods to the buyer's port as well as insurance cost for goods in transit. The seller here does not have responsibility to transport goods from buyer's country port to the buyer's address. The seller will be the insured here.

<u>Cost and Freight (C.F)</u>: In this, the invoice includes freight charges and no insurance cost. The Marine Insurance is purchased by the buyer in this case.

<u>Free on Rail (F.O.R)</u>: This is similar as free on board but the difference is that it is applicable for internal trade only and not international trade.

Scope of Marine insurance

Marine Insurance covers the following:

1. ***Cargo insurance***: The word cargo refers to goods and merchandise which are in transit by sea, road, rail or air. While in transit, there is risk of goods (raw materials, finished goods, equipment's, wares) being damaged and thus the need for marine cargo insurance to indemnify the shippers against the financial loss caused due to damage to the cargo. It includes:

Inland Transport by country craft

Import and export of goods by ocean through all type of vessels

Consignments by air, rail or road

Goods send by Post

Trans shipments

The coverage provided under this policy is defined by the Institute of London Underwriters and are standardized in the International market into three clauses which are:

Clause A: All risk Institute Cargo

Clause B: Basic Cover Institute Cargo

Clause C: Fire and Lightening Institute Cargo It has coverage of loss or damage caused by war, strikes, riots, capture, fire, storms, earthquake, accident, lightening and any other which is specified in the policy.

2. ***Hull marine insurance***: In this type of marine insurance, the subject matter is the vessel and its equipment. The insurer compensates the insured in case the latter suffers financial loss due to damage or destruction of the vessel or its equipment. It covers various types of vessels such as jetties, trawlers, sailing vessels, dredgers, and port crafts, ocean steamers, off shore vessels and even ship builders and repairers. The policy covers risk caused due to fire, collision, sinking, overturning, crew negligence, earthquake, floods, piracy and violent thefts. It does not cover risks due to radioactive damage, war, terrorist's activities, deliberate damage and insolvency of the ship owner.

3. ***Freight insurance***: It provides protection to vessel owner in case of non-payment of freight charges due to loss of the cargo. The freight charges are paid to ship owners for transporting the goods and merchandise safely. In case of payment of freight charges on delivery, the vessel owner faces the risk in the event cargo is damaged. Thus, here the vessel owner has insurable interest and purchases freight insurance to cover the risk. It is done on a time basis, certain freight amount of freight is insured for a 12 month period.

4. ***Liability insurance***: It is an Insurance policy provided to the insured to cover his liabilities against the third-party contingent to marine accidents or adventures. It will cover accidental loss of property of the third person as well as the fatal or non-fatal injury to the third party. It can be of two forms:

<u>Cross Liabilities</u>: Where both the vessels are to be blamed for the accident and are required to pay each other for the damages caused by them to the other.

Single Liabilities: It is only a liability on the part of the vessel under lesser damages to that with the greater.

Types of Marine Insurance policies

The various types of marine Insurance policies being offered by the Insurance Companies and some of them are explained below:

1. Voyage policy: It refers to policy issued for a specific passage from departure location to the destination location. It is applicable where subject matter is the cargo. Here, the risk arises when the ship leaves the departure port and covers the cargo even when it is located at intermediate places. Ex. A voyage policy from Bombay port to Hong Kong port.

2. Time policy: As the name implies, the subject matter is covered for a specific period of time which is usually one year. In the case where time has to be extended more than one year, a Continuation clause is to be added in the contract. It is applicable in case of hull insurance where the vessel is insured while it is navigating or it is being constructed. The vessel can follow any course it wants. They are standard clauses with respect to freight and premium which are added on to this policy. Ex. A time policy from 1st Jan, 2016 to 1st Jan,2017 .

3**.** Mixed policy: It is hybrid of Voyage and Time policy where the insurance policy covers risk during a particular voyage for a specified time period. It is more applicable in case of cargos.

4. Unvalued policy: It refers to that policy where the value of the subject matter is not mentioned in the contract. The compensation is paid after ascertaining the value of the loss, where the method to determine the loss is already pre decided and mentioned in the contract. The value so determined after loss is known as Insurable value or valuable. This policy is also known as open policy.

5. Valued policy: It is reverse of the unvalued policy, here the worth of the subject matter is ascertained and thus the value of loss to be indemnified is pre decided between the insured and the insurer while making the contract and it does not change. The value here is refer as insured value or agreed value and it may not be the actual value to be indemnified.

6. Floating policy: This policy is useful for those who have frequent cargos to transport or are involved in large scale trade activities. In this policy only the general terms and policy coverage amount are specified and other details such as ship name can be subsequently declared. The declaration is made when the order is dispatched on the vessel. The sum insured is based on previous year turnover or by estimating annual turnover in case of new proposal.

7. Single vessel policy: This policy is for one ship only. A company may have separate policy for each of its ship.

8. Fleet or single policy: Here one policy covers fleet of ship; it is preferred by shipping companies owning multiple ships.

9. Named policy: This policy is specific in nature where the name of the vessel and the claim amount is clearly stated.

10. Special declaration policy: This policy is issued to those organizations which have a large annual turnover i.e. 3 crores or more. The coverage amount shall be on the previous year turnover.

11. Annual policy: As the name suggests it is a policy having duration for one year and cover goods belonging to the insured or held in trust by him.

12. Wager Policy: A wager policy is one where there are no fixed terms of reimbursements mentioned. If the insurance company finds the damages worth the claim, then the reimbursements are provided. Else, there is no compensation offered. Also, it has to be noted that a wager policy is not a written insurance policy and as such is not valid in a court of law.

13. 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.

Documents for Marine Insurance Claim

In case of loss to the insured for the subject matter covered under the Marine Insurance Policy, the insured should inform the Insurance Company of the mishap at the earliest. Then Insurance Company will send officials to do the survey to look into the mishap and estimate the loss suffered by the insured. The insured has to submit certain documents while filing the Marine Insurance claim. These are as follows:

1. The original copy of the Insurance Policy Certificate: It is issued by the Insurance Company which mentions the details of the subject matter covered under policy, policy period and insured's details

2. Survey Report: It contains the observation of the surveyor regarding the cause of the event and the extent of the loss suffered by the insured in terms of goods damaged.

3. Invoice: It shows the terms of sale, shipment details and the value of the cargo for which claim is submitted to the Insurance Company.

4. Bill of Lading: is a document which contains the details of the shipment- where the cargo is going, name of the vessel, amount of cargo, how it is to be handled and billed. It acts as a receipt issued by the carrier to the consignor.

5. Claim Bill: It contains the details of the claim amount made by the insured for the loss suffered by him.

6. Copy of Protest: In case the loss is by perils of sea, then the owner of the vessel goes in front of the public authorities at the destination port to inform them about the loss suffered and protests that he was not responsible for the loss. The copy of the same is to be submitted to the insurer.

7. Letter of Subrogation: This letter given by the insured authorizes the Insurance Company the right to make claim from a third party that may be responsible for the damage caused.

8. Bill of Entry: It is a formal document issued by the custom officials that specifies the account sales of the cargo and the custom duty paid by the importer or the exporter.

9. Dock Receipt: It mentions the condition of the cargo while it is loaded and unloaded during the shipment.

Marine Policy Conditions

The Marine Insurance Act 1906 provides the framework on which marine insurance is based and the policy document is formulated on the base of marine policy conditions. Based upon this framework, the insurers are obliged to issue their policies.

- Insurance Cargo Clauses (ICC) (C): The clause provides major casualty coverage during the land transit and tend to be used for cargoes that are not easily damaged, e.g. scrap steel, coal, etc. Subject to the policy exclusions and warranties the © covers loss or damage to the subject matter insured reasonably attributable to
- o Fire or explosion
- o Grounding, sinking
- o Overturning or derailment
- o Collision or contact of vessel
- o Discharge of cargo at point of distress
- Insurance Cargo Clause (B): Subject to the policy exclusions and warranties, the (B) clauses provide all the cover under (C) and also cover loss of damage to the subject matter insured reasonably attributable to:
- o Earthquake, volcanic eruption or lightning
- o Water damage by entry of sea/ water (excluding rainwater),
- o Total loss of package lost overboard
- Institute cargo Clause (A): Subject to the policy exclusions and warranties, the clause "A" provides the widest of all three covers and generally summed up as 'all risk' of loss or damage to the subject matter insured.