

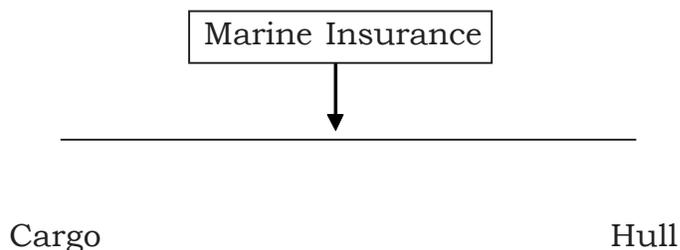


## **MARINE INSURANCE**

### **2.0 INTRODUCTION**

This is the oldest branch of Insurance and is closely linked to the practice of Bottomry which has been referred to in the ancient records of Babylonians and the code of Hammurabi way back in B.C.2250. Manufacturers of goods advanced their material to traders who gave them receipts for the materials and a rate of interest was agreed upon. If the trader was robbed during the journey, he would be freed from the debt but if he came back, he would pay both the value of the materials and the interest.

The first known Marine Insurance agreement was executed in Genoa on 13/10/1347 and marine Insurance was legally regulated in 1369 there.



### **2.1 OBJECTIVES**

- Know the meaning of Marine insurance
- Buy the Marine insurance
- Settle the claim under Marine Insurance
- Know the inland transit/overseas transit.
- Know what is not covered under Marine insurance

## 2.2 MEANING OF MARINE INSURANCE

A contract of marine insurance is an agreement whereby the insurer undertakes to indemnify the insured, in the manner and to the extent thereby agreed, against transit losses, that is to say losses incidental to transit.

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

### In simple words the marine insurance includes

- A. Cargo insurance which provides insurance cover in respect of loss of or damage to goods during transit by rail, road, sea or air.

Thus cargo insurance concerns the following :

- (i) export and import shipments by ocean-going vessels of all types,
- (ii) coastal shipments by steamers, sailing vessels, mechanized boats, etc.,
- (iii) shipments by inland vessels or country craft, and
- (iv) Consignments by rail, road, or air and articles sent by post.

- B. Hull insurance which is concerned with the insurance of ships (hull, machinery, etc.). This is a highly technical subject and is not dealt in this module.

## 2.3 FEATURES OF MARINE INSURANCE

- 1) **Offer & Acceptance:** It is a prerequisite to any contract. Similarly the goods under marine (transit) insurance will be insured after the offer is accepted by the insurance company. Example: A proposal submitted to the insurance company along with premium on 1/4/2011 but the insurance company accepted the proposal on 15/4/2011. The risk is covered from 15/4/2011 and any loss prior to this date will not be covered under marine insurance.
- 2) **Payment of premium:** An owner must ensure that the premium is paid well in advance so that the risk can be covered. If the payment is made through cheque and it is



Notes



## Notes

dishonored then the coverage of risk will not exist. It is as per section 64VB of Insurance Act 1938- Payment of premium in advance.(Details under insurance legislation Module).

- 3) **Contract of Indemnity:** Marine insurance is contract of indemnity and the insurance company is liable only to the extent of actual loss suffered. If there is no loss there is no liability even if there is operation of insured peril. Example: If the property under marine (transit) insurance is insured for Rs 20 lakhs and during transit it is damaged to the extent of Rs 10 lakhs then the insurance company will not pay more than Rs 10 lakhs.
- 4) **Utmost good faith:** The owner of goods to be transported must disclose all the relevant information to the insurance company while insuring their goods. The marine policy shall be voidable at the option of the insurer in the event of misrepresentation, mis-description or non-disclosure of any material information. Example: The nature of goods must be disclosed i.e whether the goods are hazardous in nature or not, as premium rate will be higher for hazardous goods.
- 5) **Insurable Interest:** The marine insurance will be valid if the person is having insurable interest at the time of loss. The insurable interest will depend upon the nature of sales contract. Example: Mr A sends the goods to Mr B on FOB( Free on Board) basis which means the insurance is to be arranged by Mr B. And if any loss arises during transit then Mr B is entitled to get the compensation from the insurance company.  
**Example:** Mr A sends the goods to Mr B on CIF (Cost, Insurance and Freight) basis which means the insurance is to be arranged by Mr A. And if any loss arises during transit then Mr A is entitled to get the compensation from the insurance company.
- 6) **Contribution:** If a person insures his goods with two insurance companies, then in case of marine loss both the insurance companies will pay the loss to the owner proportionately. Example; Goods worth Rs. 50 lakhs were insured for marine insurance with Insurance company A and B. In case of loss, both the insurance companies will contribute equally.



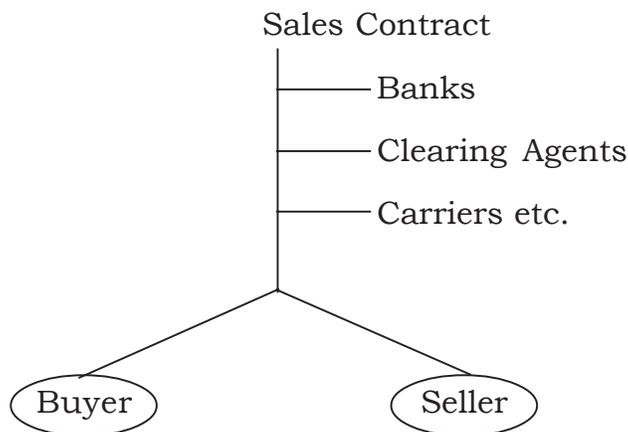
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- 7) **Period of marine Insurance:** The period of insurance in the policy is for the normal time taken for a particular transit. Generally the period of open marine insurance will not exceed one year. It can also be issued for the single transit and for specific period but not for more than a year.
- 8) **Deliberate Act:** If goods are damaged or loss occurs during transit because of deliberate act of an owner then that damage or loss will not be covered under the policy.
- 9) **Claims:** To get the compensation under marine insurance the owner must inform the insurance company immediately so that the insurance company can take necessary steps to determine the loss.

**2.4 OPERATION OF MARINE INSURANCE**

Marine insurance plays an important role in domestic trade as well as in international trade. Most contracts of sale require that the goods must be covered, either by the seller or the buyer, against loss or damage.

Who is responsible for affecting insurance on the goods, which are the subject of sale? It depends on the terms of the sale contract. A contract of sale involves mainly a seller and a buyer, apart from other associated parties like carriers, banks, clearing agents, etc.



The principal types of sale contracts, so far as Marine insurance is directly concerned, are as follows:



**Notes**

**Type of contract**

**Responsibility for insurance**

**Free on Board  
(F.O.B. Contract)**

The seller is responsible till the goods are placed on board the steamer. The buyer is responsible thereafter. He can get the insurance done wherever he likes.

**Free on Rail  
(F.O.R. Contract)**

The provisions are the same as in above. This is mainly relevant to internal transactions.

**Cost and Freight  
(C&F Contract)**

Here also, the buyer's responsibility normally attaches once the goods are placed on board. He has to take care of the insurance from that point onwards.

**Cost, Insurance &  
Freight  
(C.I.F. Contract)**

In this case, the seller is responsible for arranging the insurance upto destination.

He includes the premium charge as part of the cost of goods in the sale invoice.

**Practice in International trade**

The normal practice in export /import trade is for the exporter to ask the importer to open a letter of credit with a bank in favour of the exporter. As and when the goods are ready for shipment by the exporter, he hands over the documents of title to the bank and gets the bill of exchange drawn by him on the importer, discounted with the bank. In this process, the goods which are the subject of the sale are considered by the bank as physical security against the monies advanced by it to the exporter. A further security by way of an insurance policy is also required by the bank to protect its interests in the event of the goods suffering loss or damage in transit, in which case the importer may not make the payment. The terms and conditions of insurance are specified in the letter of credit.

For export/import policies, the-Institute Cargo Clauses (I.C.C.) are used. These clauses are drafted by the Institute of London Underwriters (ILU) and are used by insurance companies in a majority of countries including India.

**INTEXT QUESTIONS 2.1**

1. Who will get claim amount in case of marine insurance?
2. If sale contract is FOB, who should insure the goods?

**2.5 PROCEDURE TO INSURE UNDER MARINE INSURANCE**

- A) Submission of form
- B) Quotation from the Insurance Company
- C) Payment of Premium
- D) Issue of cover note/Policy

**A) Submission of form****a) The form will have the following information:**

- a) Name of the shipper or consignor (the insured).
- b) **Full description of goods to be insured:** The nature of the commodity to be insured is important for rating and underwriting. Different types of commodities are susceptible for different types of damage during transit- sugar, cement, etc are easily damaged by sea water; cotton is liable to catch fire; liquid cargoes are susceptible to the risk of leakage and crockery, glassware to breakage; electronic items are exposed to the risk of theft, and so on.
- c) **Method and type of packing:** The possibility of loss or damage depends on this factor. Generally, goods are packed in bales or bags, cases or bundles, crates, drums or barrels, loose packing, paper or cardboard cartons, or in bulk etc.
- d) **Voyage and Mode of Transit:** Information will be required on the following points :
  - i. the name of the place from where transit will commence and the name of the place where it is to terminate.
  - ii. mode of conveyance to be used in transporting goods, (i.e.) whether by rail, lorry, air, etc., or a combination of two or more of these. The name of the vessel is to be given when an overseas voyage is involved. In land



Notes



## Notes

transit by rail, lorry or air, the number of the consignment note and the date thereof should be furnished. The postal receipt number and date thereof is required in case of goods sent by registered post.

- iii. If a voyage is likely to involve a trans-shipment it enhances the risk. This fact should be informed while seeking insurance. Trans-shipment means the change of carrier during the voyage.
- e) **Risk Cover required:** The risks against which insurance cover is required should be stated. The details of risks are discussed subsequently in this chapter.

### B) Quotation by insurance company

Based on the information provided as above the insurance company will quote the premium rate. In nutshell, the rates of premium depends upon :

- (a) Nature of commodity.
- (b) Method of packing.
- (c) The Vessel.
- (d) Type of insurance policy.

### C) Payment of premium:

On accepting the premium rates, the concerned person will make the payment to the insurance company. The payment can be made on the consignment basis.

### D) Issue of cover note /Policy document:

#### i) Cover Note

A cover note is a document granting cover provisionally pending the issue of a regular policy. It happens frequently that all the details required for the purpose of issuing a policy are not available. For instance, the name of the steamer, the number and date of the railway receipt, the number of packages involved in transit, etc., may not be known.

**ii) Marine Policy**

This is a document which is an evidence of the contract of marine insurance. It contains the individual details such as name of the insured, details of goods etc. These have been identified earlier. The policy makes specific reference to the risks covered. A policy covering a single shipment or consignment is known as specific policy.

**iii) Open Policy**

An open policy is also known as 'floating policy'. It is worded in general terms and is issued to take care of all "shipments" coming within its scope. It is issued for a substantial amount to cover shipments or sending during a particular period of time. Declarations are made under the open policy and these go to reduce the sum insured.

Open policies are normally issued for a year. If they are fully declared before that time, a fresh policy may be issued, or an endorsement placed on the original policy for the additional amount. On the other hand, if the policy has run its normal period and is cancelled, a proportionate premium on the unutilised balance is refunded to the insured if full premium had been earlier collected.

On receipt of each declaration, a separate certificate of insurance is issued. An open policy is a stamped document, and, therefore, certificates of insurance issued thereunder need not be stamped.

Open policies are generally issued to cover inland consignments.

There are certain advantages of an open policy compared to specific policies. These are:

- (a) Automatic and continuous insurance protection.
- (b) Clerical labour is considerably reduced.
- (c) Some saving in stamp duty. This may be substantial, particularly in the case of inland sendings.

**iv) Open Cover**

An open cover is particularly useful for large export and import firms-making numerous regular shipments who would otherwise find it very inconvenient to obtain insurance cover separately for each and every shipment.



Notes



## Notes

It is also possible that through an oversight on the part of the insured a particular shipment may remain uncovered and should a loss arises in respect of such shipment, it would fall on the insured themselves to be borne by them. In order to overcome such a disadvantage, a permanent form of insurance protection by means of an open cover is taken by big firms having regular shipments.

An open cover describes the cargo, voyage and cover in general terms and takes care automatically of all shipments which fall within its scope. It is usually issued for a period of 12 months and is renewable annually. It is subject to cancellation on either side, i.e., the insurer or the insured, by giving due notice.

Since no stamps are affixed to the open cover, specific policies or certificates of insurance are issued against declaration and they are required to be stamped according to the Stamp Act.

There is no limit to the total number or value of shipments that can be declared under the open cover.

The following are the important features of an open policy/ open cover.

**(a) Limit per bottom or per conveyance**

The limit per bottom means that the value of a single shipment declared under the open cover should not exceed the stipulated amount.

**(b) Basis of Valuation**

The 'Basis' normally adopted is the prime cost of the goods, freight and other charges incidental to shipment, cost of insurance, plus 10% to cover profits, (the percentage to cover profits may be sometimes higher by prior agreement with the clients).

**(c) Location Clause**

While the limit per bottom mentioned under (a) above is helpful in restricting the commitment of insurers on any one vessel, it may happen in actual practice that a number of different shipments falling under the scope of the open cover may accumulate at the port of shipment. The location clause limits the liability of the insurers at any one time or place before shipment.



Notes

Generally, this is the same limit as the limit per bottom or conveyance specified in the cover, but sometimes it may be agreed at an amount, say, upto 200% thereof.

**(d) Rate**

A schedule of agreed rates is attached to each open cover.

**(e) Terms**

There may be different terms applying to different commodities covered under the open cover, and they are clearly stipulated.

**(f) Declaration Clause**

The insured is made responsible to declare each and every shipment coming within the scope of the open cover. An unscrupulous insured may omit a few declarations to save premium, specially when he knows that shipment has arrived safely. Hence the clause.

**(g) Cancellation Clause**

This clause provides for cancellation of the contract with a certain period of notice, e.g., a month's notice on either side. In case of War & S.R.C.C. risks, the period of notice is much shorter.

**Distinction between “Open policy” and “Open cover”**

The open policy differs from an open cover in certain important respects. They are :

- (a) The open policy is a stamped document and is, therefore, legally enforceable in itself, whereas an open cover is unstamped and has no legal validity unless backed by a stamped policy/certificate of insurance.
- (b) An open policy is issued for a fixed sum insured, whereas there is no such limit of amount under any open cover. As and when shipments are made under the open policy, they have to be declared to the insurers and the sum insured under the open policy reduces by the amount of such declarations. When the total of the declarations amounts to the sum insured under the open policy, the open policy stands exhausted and has to be replaced by a fresh one.



## Notes

**h) Certificate of Insurance**

A certificate of insurance is issued to satisfy the requirements of the insured or the banks in respect of each declaration made under an open cover and / or open policy. The certificate, which is substituted for specific policy, is a simple document containing particulars of the shipment or sending. The number of open contract under which it is issued is mentioned, and occasionally, terms and conditions of the original cover are also mentioned. Certificates need not be stamped when the original policy has been duly stamped.

**Types of Marine Insurance****a) Special Declaration Policy**

This is a form of floating policy issued to clients whose annual estimated dispatches (i.e. turnover) by rail / road / inland waterways exceed Rs 2 crores.

Declaration of dispatches shall be made at periodical intervals and premium is adjusted on expiry of the policy based on the total declared amount.

When the policy is issued sum insured should be based on previous year's turnover or in case of fresh proposals, on a fair estimate of annual dispatches.

A discount in the rates of premium based on turnover amount (e.g. exceeding Rs.5 crores etc.) on a slab basis and loss ratio is applicable.

**b) Special Storage Risks Insurance**

This insurance is granted in conjunction with an open policy or a special declaration policy.

The purpose of this policy is to cover goods lying at the Railway premises or carrier's godowns after termination of transit cover under open or special declaration policies but pending clearance by the consignees. The cover terminates when delivery is taken by the consignee or payment is received by the consignor, whichever is earlier.

**c) Annual Policy**

This policy, issued for 12 months, covers goods belonging to the insured, which are not under contract of sale, and

which are in transit by rail / road from specified depots / processing units to other specified depots / processing units.

**d) “Duty” Insurance**

Cargo imported into India is subject to payment of Customs Duty, as per the Customs Act. This duty can be included in the value of the cargo insured under a Marine Cargo Policy, or a separate policy can be issued in which case the Duty Insurance Clause is incorporated in the policy. Warranty provides that the claim under the Duty Policy would be payable only if the claim under the cargo policy is payable.

**e) “Increased Value” Insurance**

Insurance may be ‘goods at destination port’ on the date of landing if it is higher than the CIF and Duty value of the cargo.

**2.6 PROCEDURE OF CLAIM SETTLEMENT:**

As the risk coverages are different for import/export and inland (with in India) consignments, the procedure of claim settlement is explained separately.

**2.6.1 For Import/Export consignments**

**Claims Documents**

Claims under marine policies have to be supported by certain documents which vary according to the type of loss as also the circumstances of the claim and the mode of carriage.

The documents required for any claim are as under:

- a) Intimation to the Insurance company:** As soon as the loss is discovered then it is the duty of the policyholder to inform the Insurance company to enable it to assess the loss.
- b) Policy:** The original policy or certificate of insurance is to be submitted to the company. This document establishes the claimant’s title and also serves as an evidence of the subject matter being actually insured.
- c) Bill of Lading :** Bill of Lading is a document which serves as evidence that the goods were actually shipped. It also gives the particulars of cargo.



Notes



## Notes

- d) **Invoice:** An invoice evidences the terms of sale. It also contains complete description of the goods, prices, etc. The invoice enables the insurers to see that the insured value of the cargo is not unreasonably in excess of its cost, and that there is no gross overvaluation. The original invoice (or a copy thereof) is required in support of claim.
- e) **Survey Report:** Survey report shows the cause and extent of loss, and is absolutely necessary for the settlement of claim. The findings of the surveyors relate to the nature and extent of loss or damage, particulars of the sound values and damaged values, etc. It is normally issued with the remarks “without prejudice,” i.e. without prejudice to the question of liability under the policy.
- f) **Debit Note:** The claimant is expected to send a debit note showing the amount claimed by him in respect of the loss or damage. This is sometimes referred to as a claim bill.
- g) **Copy of Protest:** If the loss or damage to cargo has been caused by a peril of the sea, the master of the vessel usually makes a protest on arrival at destination before a Notary Public. Through this protest, he informs that he is not responsible for the loss or damage. Insurers sometimes require to see the copy of the protest to satisfy themselves about the actual cause of the loss.
- h) **Letter of Subrogation :** This is a legal document (supplied by insurers) which transfers the rights of the claimant against a third party to the insurers.
- On payment of claim, the insurers may wish to pursue recovery from a carrier or other third party who, in their opinion, is responsible for the loss. The authority to do so is derived from this document. It is required to be duly stamped.
- Some of the other documents required in support of particular average claims are Ship survey report lost overboard certificate if cargo is lost during loading and unloading operation, short landing certificate etc.
- i) **Bill of entry:** The other important document is bill of entry issued by the customs authorities showing therein the amount of duty paid, the date of arrival of the steamer, etc., account sales showing the proceeds of the sale of

the goods if they have been disposed of; repairs or replacements bills in case of damages or breakage; and copies of correspondence exchanged between the carriers and the claimants for compensation in case of liability resting on the carriers.

### **2.6.2 Inland Transit Claims (Rail / Road)**

In regard to claims relating to inland transit, the documents required to be submitted to the insurers in support of the claim are:

- (a) Original policy or certificate of insurance duly endorsed.
- (b) Invoice, in original, or copy thereof.
- (c) Certificate of loss or damage (original) issued by carriers.
- (d) If goods are totally lost or not delivered, the original railway receipt and / or non-delivery certificate / consignment note.
- (e) Copy of the claim lodged against the railways / road carriers (By Regd. A.D.)
- (f) Letter of Subrogation, duly stamped.
- (g) Special Power of Attorney duly stamped. (Railway Claims).
- (h) Letter of Authority addressed to the railway authorities signed by the consignors in favour of consignees whenever loss is claimed by consignees.
- (i) Letter of Authority addressed to the railway authorities signed by the consignors in favour of the insurers
- (j) Letter of Undertaking from the claimant in case of non-delivery of consignment.
- (k) Claim Bill, after adjusting salvage value proposed.

### **2.7 RISK COVERAGE**

For export/import policies, the-Institute Cargo Clauses (I.C.C.) are used. These clauses are drafted by the Institute of London Underwriters (ILU) and are used by insurance companies in a majority of countries including India.

#### **Exclusions**

All three sets of clauses contain general exclusions. The important exclusions are:

**Notes**

**Notes**

- i. Loss caused by willful misconduct of the insured.
- ii. Ordinary leakage, ordinary loss in weight or volume or ordinary wear and tear. These are normal 'trade' losses which are inevitable and not accidental in nature.
- iii. Loss caused by 'inherent vice' or nature of the subject matter. For example, perishable commodities like fruits, vegetables, etc. may deteriorate without any 'accidental cause'. This is known as 'inherent vice'.
- iv. Loss caused by delay, even though the delay be caused by an insured risk.
- v. Deliberate damage by the wrongful act of any person. This is called 'malicious damage' and can be covered at extra premium, under (B) and (C) clauses. Under 'A' clause, the risk is automatically covered.
- vi. Loss arising from insolvency or financial default of owners, operators, etc. of the vessel. Many ship owners, especially tramp vessel owners, fail to perform the voyage due to financial troubles with consequent loss or damage to cargo. This is not an accidental loss. The insured has to be cautious in selecting the vessel for shipment.
- vii. Loss or damage due to inadequate packing.
- viii. War and kindred perils. These can be covered on payment of extra premium.
- ix. Strikes, riots, lock-out, civil commotions and terrorism (SRCC) can be covered on payment of extra premium.

**B) Inland Consignments.****Exclusions**

All three sets of clauses have the same exclusions as are found in ICC Clauses.

**2.8 MISCELLANEOUS****a) Duration of Cover-Import/export**

Cargo policies are issued for specified voyage or transit whatever the time taken. It is necessary to be clear as to when exactly risk commences and terminates under a voyage policy.

The duration of cover is defined in the Transit Clause (popularly known as Warehouse to Warehouse Clause or WW clause) of the 1CC.

**Notes**

The cover commences from the time the goods leave the warehouse at the place named in the policy, continues during the ordinary course of transit and terminates either

- a) On delivery to the consignees' or other final warehouse at the destination named.
- b) On delivery to any intermediate warehouse used by the insured for purposes of storage or distribution or
- c) On the expiry of 60 days after discharge from the vessel at the final port of discharge whichever shall first occur.

**(Note :** The time limit of 60 days is prescribed to ensure early clearance of goods by the consignee. Insurers extend the time limit, at extra premium, in genuine circumstances causing delay in clearance.)

**b) Duration of Cover-Inland consignments**

Insurance attaches with the loading of each bale/ package into the wagon/truck for commencement of transit and continues during ordinary course of transit, including customary trans shipments and ceases immediately on unloading of each bale/package –

- (a) at destination railway station for rail transits
- (b) at destination named in the policy in respect of road transits.

**Note:** Under both clauses the risk attaches from the time the goods leave the warehouse and / or the store at the place named in the policy for the commencement of transit and continues, during the ordinary course of transit, including customary transshipment, if any,

- (i) until delivery to the final warehouse at the destination named in the policy, or in respect of transits by Rail only or Rail and Road, until expiry of 7 days after arrival of the railway wagon at the final destination railway station, or
- (ii) in respect of transits by Road only, until expiry of 7 days after arrival of the vehicle at the destination town named in the policy, whichever first occur.



## Notes

**c) Total Loss**

Goods may be totally lost by the operation of the marine peril. The measure of indemnity in the event of total loss of the goods is the full insured value. The insurers are entitled to take over the salvage, if any.

An actual total loss takes place where the subject matter is entirely destroyed or damaged to such an extent that it is no longer a thing of the kind insured.

As against actual total loss, a constructive total loss, which is a commercial total loss, takes place where the subject matter insured is abandoned on account of the actual total loss being inevitable, or where the expenditure to be incurred for repairs or recovery would exceed the value of the subject-matter after the repairs or recovery.

**d) Particular Average**

These are partial losses caused by marine perils. The particular average losses occur when there is a total loss of part of the goods covered, e.g., a consignment may consist of 100 packages of which 5 packages may be lost completely. Another way in which particular average loss occurs is when there is damage to the goods. Where whole or any part of the goods insured is delivered damaged at destination, the percentage of depreciation is ascertained by a surveyor appointed for the purpose, by comparing on the one hand the gross sound market value and, on the other, the gross damaged market value on arrival of the goods at destination.

**e) General Average**

General Average is a loss caused by a general average act. An act is referred to as general average act when an extraordinary sacrifice or expenditure is made to save the entire ship. Such an act should be voluntary, and the expenditure reasonable. It should be undertaken with the sole idea of preserving the property imperiled in an adventure. Whenever there is a general average, the party on whom it falls, gets a rateable contribution known as general average contribution from the other parties, who are interested in the adventure and who have benefited by the voluntary sacrifice or expenditure.

The following are the examples of a general average loss:

- (a) Cargo jettisoned in an effort to refloat the vessel
- (b) Tugs employed to tow the vessel to safety

As mentioned earlier, general average is shared proportionately by all the interests at risk at the time of the general average act, i.e. ship, cargo and freight.

In the event of a general average act, the ship owner declares “general average”. He has a lien on the goods for the general average contribution. Therefore, before the goods are released at destination, the ship owner insists on the consignees to execute a bond. In addition to the general average bond, the consignees may have to pay a general average deposit in cash, or present a guarantee given by a bank or an insurance company.

Thus, there are two types of losses resulting from a general average act : sacrifice and expenditure. These losses are payable under the marine policy provided an insured peril was the cause of the general average act. Cargo which is sacrificed is a loss payable under the cargo policy. Similarly, contributions to be made by owners of ‘cargo’ saved are also paid as a loss under their cargo policies.

The adjustment of general average is done by specialists known as G.A. adjusters.

#### **f) Salvage Loss**

When the goods insured are damaged during transit, and the nature of the goods is such that they would deteriorate further and would be worthless by the time the vessel arrives at destination, it would be a prudent and sensible way of dealing with the situation by disposing off the same at an intermediate port for the best price obtained. The term ‘salvage loss’ refers to the amount payable which is the difference between the insured value and the net proceeds of the sale. This is a practical method of settlement.

#### **g) Sue and Labour Charges**

Insurers expect that the insured should at all times act as if he was uninsured and take such steps as a prudent person would normally take. In view of this, if there be



Notes

**Notes**

any expenses incurred by the insured or his agents to minimize the loss or damage payable under the policy, the same are reimbursed by insurers.

Examples of such charges known as Sue and Labour charges are landing, warehousing, reconditioning, re-forwarding and similar charges.

**h) Extra Charges**

Under this expression come survey fees, settling agents fees, etc. They are payable if the claim is admitted. Whenever a marine survey is arranged, the fees are paid by the claimant initially and are reimbursed when the claim is paid.

**i) Recovery from Carriers**

As stated earlier, in many marine claims, there are possibilities of recovery from the carriers, i.e., road carriers, railways, steamer companies, etc. After payment of claim, the insurers are subrogated the rights and remedies available to the insured against the carriers or third parties responsible for the loss.

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**INTEXT QUESTIONS 2.2**

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1. Mention the types of coverage's available for the export consignments.
  2. Explain whether recoveries can be made from Carriers.
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**2.9 SUMMARY**

Marine insurance deals with goods when these are being moved from one place to another by approved mode of transportation. The goods can be moved within the country and outside the country. The risks are involved in any type of transportation and to cover these risks marine (transit) insurance is developed. The risk coverage depends upon the nature of goods and packing and to cover the risks the price is to be paid which is known as premium. The consignment can be single or multiple and accordingly the marine insurance policy i.e single transit or open cover or open policy is issued by the insurance company. The risk coverage is defined by Institute of London Underwriters under the various clause ICC (A), (B), (C) and the same is acceptable to all throughout

the world. Similarly the clauses for inland transit have been defined as ITC (A),(B), (C).

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**2.10 TERMINAL QUESTIONS**

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- 1) Define the marine insurance and explain its features.
- 2) Explain the procedure to be followed to cover the risk for transporting the goods from Delhi to USA.
- 3) Discuss the procedure for making any marine insurance claim.

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**2.11 OBJECTIVE TYPE QUESTIONS**

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1. INCO Term commonly applied internationally does not include the following terms for type of contract
  - a. F .O.B.
  - b. C & F
  - c. I.C.C.
  - d. C.I.F
2. A document authorized by the buyer for the seller to draw on buyer's bank, the amount stated on completion of conditions as stated in letter of credit:
  - a. Bill of Lading
  - b. Bill of exchange
  - c. Export Invoice
  - d. Marine Cargo Insurance Policy
3. In case any accident occurs, the cause is known as
  - a. Risk
  - b. Peril
  - c. Damage
  - d. None of the above
4. In Marine Insurance Policy Insurable interest must exist at the time of

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**Notes**

- a. Taking policy
  - b. At the time of claim
  - c. Both at time of Policy & claim
  - d. May not have insurable interest
5. Ordinary Leakage as per ICC means
- a. Leakage from accident Tin
  - b. Evaporation of Liquids in atmosphere
  - c. Leakage from defective Tin
  - d. None of the above
6. Which of the following statements is true?
- Statement A: Insurer pays Rs.9,000 for total loss of a case of textiles during transit insured for Rs.10,000 but having a C.I.F. value of Rs.9,000 only.**
- Statement B: Insurer pays Rs.2,000 in respect of a cargo insurance claim of Rs.2,000 under a marine cargo policy subject to a franchise of Rs.1,000.**
- a. Only Statement A
  - b. Only Statement B
  - c. Both the Statements
  - d. Neither of the Statements
7. Which of the following risks covered under Institute Cargo Clauses (B) are not covered under Institute Cargo Clauses (C)
- Statement A: Discharge of cargo at port of distress**
- Statement B: Earthquake, volcanic eruption, lightning.**
- a. Statement A only
  - b. Statement B only
  - c. Both statements
  - d. Neither of the Statements



Notes

8. Under Institute Cargo Clauses (Air), insurance terminates on expiry of \_\_\_\_\_days after unloading of cargo from aircraft at final place of discharge.
- 60 days
  - 30 days
  - 7 days
  - 14 days

9. Which of the following statements is true?

**Statement A: Cargo policy is assigned by blank endorsement, that is, mere signature of policyholder without specifying the assignee. Notice to insurer is not necessary.**

**Statement B: Hull policies include a clause requiring that assignment shall be by specific endorsement.**

- Statement A only
  - Statement B only
  - Both the Statements
  - Neither of the Statements
- 10 . Which of the following statements is true under an F.O.B. contract of sale?

Statement A: Seller is responsible till goods are placed on board the carrying vessel.

Statement B: Buyer's responsibility attaches once the goods are placed on board the vessel.

- Only Statement A
- Only Statement B
- Both the Statements
- Neither of the Statements

**Notes**

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**2.12 ANSWERS TO INTEXT QUESTIONS**

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**2.1**

1. A person who is having insurable interest at the time of loss.
2. The seller is responsible to take the insurance.

**2.2**

1. There are three types i.e ICC (A), or (B) or (C)
2. Yes, the recoveries can be made by the insurer from the carriers.

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**2.13 ANSWER TO OBJECTIVE TYPE QUESTIONS**

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- |       |       |       |       |
|-------|-------|-------|-------|
| 1. c, | 2. b, | 3. b, | 4. b, |
| 5. b, | 6. c, | 7. b, | 8. a, |
| 9. c, | 10.c  |       |       |