Unit-2- Marine Insurance

Meaning- Procedure of taking marine insurance policy- Difference between fire and marine insurance- clauses of marine insurance policy- marine losses and perils- Types of policy

Meaning and Definition- Marine insurance is the oldest and the most important type of insurance. It covers the losses to the property of insured from marine risks. It is a contract according to which an insurance company undertakes to indemnify the losses to the property of insured from perils of the sea in return of premium paid by him. It is a social scheme under which a common fund is created out of the contribution from persons whose property is exposed to marine losses and the losses if any to the property of such persons are paid from such common fund. It is a cooperative device that helps to share the marine losses of few by many people whose property is open to such risk.

Following are the feature of marine insurance

1. A contract- marine insurance is a contract between the insured and insurance company. It has all the essential features of valid contract such as parties competent to contract, proposal and acceptance, lawful object and consideration etc.
2. A contract of indemnity- Marine insurance is a contract of indemnity. Under this contract insurance company undertakes to indemnify the losses to the property of insured from specified marine risk during the period of insurance.
3. Covers marine perils- Under the marine policy only the losses to the insured property form marine perils are indemnified. The marine perils are storm, collision of ships, pirates, thieves, war, captures, detainment, jettion, fire etc.
4. Marine Property- Marine insurance covers the losses from the perils of the sea to marine property. Marine property includes: ship (or Vessel), Cargo (or goods) onship, freight of ship, commission and profits on cargo, third party liability.
5. Agreement through agents: The procedure of taking marine policy is very technical and complex. Hence services of agents are taken for making marine policy.
6. Oldest form of insurance- Marine insurance is the oldest form of insurance which began in Italy during 12th century to facilitate the trade through sea route.
7. Facilitates international trade and development- Marine insurance is a very important form of insurance which promotes international trade through sea route and contribution to the economic development of the work.

Difference Between fire and Marine Insurance

Sr. No.	Point	Fire Insurance	Marine Insurance
1	Meaning	It is an insurance that covers the direct and incidental losses by fire.	It is an insurance that covers the direct and incidental losses by perils of sea.
2	Subject matter of insurance	The subject matter of fire insurance is building, machinery goods and other assets subject to fire risk. It also includes consequential loss.	The subject matter of marine insurance includes vessed (or ship), cargo, and freight subject to marine risks.
3	Hazards' covered	The fire policy covers the fire risks such as ignition (petane) short circuit, incidental fire, and causa proxima	Marine policy covers the losses to the property insured from perils of sea such as storm, rain, pirates, war, perils, jettison detainment etc.
4	Insurable interest	Insurable interest must exist at the time of taking policy and also at the time of actual loss.	Insurable interest must be present only at the time of loss
5	Transfer of policy	Fire policy cannot be transferred without prior permission of the company.	Marine policy can be transferred freely form one party to another. Marine policy is taken for a specific voyage.
6	Periods of policy	Fire insurance is taken for one year	Marine policy is taken for a specific voyage.
7	Principles of indemnity	Principle of indemnity is strictly followed while setting the claim. Hence only actual loss is indemnifies.	Principle of indemnity is not followed strictly. Certain margine of profit is added to actual loss while setting the marine claim

The Procedure of Taking Marine Policy

1. Selection of Insurance Company-
2. Selection of Agent or Broker-
3. Filling up or a Marine Declaration form
4. Assessment of Risk
5. Payment of Premium
6. Issue of Cover-note
7. Issue of Policy

1. Selection of Insurance Company- The person or organization interested in getting marine policy has to select insurance company first. In India general insurance business is nationalized and general Insurance Corporation of India, through its four subsidiary companies is doing the business. The person seeking marine policy has to contact any one of these four companies.

2. **Selection of Agent or Broker-** The procedure of taking marine policy is complicated, specialized knowledge is necessary. The broker is an experienced person having specialized knowledge and has a special approach with officers of insurance company. If he is appointed to look into the matter of getting a marine policy, his services in completion of paper work, selection of policy and getting insurance are useful an save time and money. So the insurer has to select the agent for getting the policy.

3. **Filling up or a Marine Declaration Form**. The proposal for marine insurance is prepared by broker on a requisition Form. This form is to be filled up giving,

1. Details of insurance
2. Description of cargo, vessel and other assets, value of freight etc.
3. Information of voyage, route and time, ports of destination
4. Place of paying claim
5. Expenses and 10 to 15 % profit added in cost of cargo
6. Marking on packing etc.

The declaration form serves the purpose of proposal form. The declaration form is also known as original slip. The filled form is handed over to the insurance company.

4. **Assessment of the Risk-** After receiving the proposal for marine insurance, the insurance company's officers assesses the risk. On the basis of assessment of risk involved, the officers of insurance company fixed the premium payable by the insured.

5. **Payment of Premium**- On acceptance of the proposal the insurance broker is informed about the payment of premium. The payment of premium is made in the form of cash or by cheque in the office of the insurance company.

6. **Issue of Cover Note-** on acceptance of the proposal and payment of premium, insurance company issues a receipt for the same, which is called cover note. It works as a evidence of insurance till the policy is issued. Cover note contains detailed information about name of the proposer or insured, amount insured, name of vessel, port of destination. Port of departure, amount of premium etc. the Cover Note has to be preserved carefully till the final policy is received.

7. **Issue of Policy-** After completion of formalities of effecting insurance policy and issue of cover note on payment of premium, insurance company prepared the Policy document and sends it to the insured by registered post. The policy document carries name of the insured, description of goods, port of departure and destination, amount insured amount of premium and stamp etc.

Kinds of Marine Policy

1. Time Policy-Time policy is a policy taken for a definite period of time. The period of such policy is normally one year or less. For example: A policy of from 6 a.m. of 1st July 2012 to 30th June 2013 . marine risk to the insured property during such period are covered under the policy. This type of policy is suitable for hull insurance. Time policy includes contribution clause. According to this clause if the vessel or other asset are in transit at completion of period of policy the insurance cover is continued for the period till the vessel reaches the part for the renewal of the policy.
2. Voyage Policy- Voyage policy is a marine policy issued by the insurance company for a particular voyage. The marine risks during such voyage are covered by the policy.ploicy ends on completion of such voyage. While taking the policy all the details of voyage such as parts of departure and destination and the route of voyage are clearly given in the policy. This policy is suitable for cargo insurance. For example- a policy of goods for a voyage from Mumbai to Newyork.
3. Mixed policy- Mixed marine policy is a combination of Time policy and Voyage policy. It covers the marine risks for a particular period for the voyage specified in the policy . e.g. A marine policy from Mumbai to London via France and Italy for one year from 6 am of 1st April 2012 to 6.00a.m. of 31st March, 2013. Any marine loss caused to cargo or vessels during the given voyage and given time are indemnifies by the insurance company under the policy. Normally shipping companies doing transportation of a particular sea voyage prefer a mixed policy. Premium at higher rate is charged for such policy.
4. Valued Policy- Under this policy the value of goods and other assets is agreed between the insurance companies and insured while taking the policy. The value of cargo is determined by considering the factors such as cost of goods, freight and insurance charges, shipment charged and certain percentage of anticipated profit. In case of actual loss the amount of claim is finalized on the basis of value mentioned in the policy. Hence disputes in the settlement of claim are minimized. Therefore this policy is popular among trades and merchants.
5. Unvalued or open policy- in open policy the value of goods and property to be insured is not stated at the time of taking out policy. Insurance company ascertains the value of assets insured at the time of actual loss while settling the claim. Hence disputes may arise between the insurance co. insurers about the exact value of assets lost by perils of the sea. While making the valuation of assets at the time of loss the insurance company ascertains the values of assets after deducting the depreciation till date. It adds freight, shipment and other incidental expenses. But it does not add anticipated profit on such goods. This policy is not popular among the merchants.
6. Floating policy- floating policy mentions the specific amount for which insurance is taken out but it does not give the details of voyage, cargo or name of the ship. All such details are provided to the insurance company later on when actually

goods are consigned by making declaration by the insured. The cover is granted as and when the declaration made. Floating policy is taken out by the merchants and organizations doing imports and exports of goods regularly to different parts. Policy is taken out for a particular period. The policy amount is decided on the basis of shipments likely to be made during that period. Advance premium is paid on the amount of policy. Declaration of details of voyage, name of ship, description and value of goods consigned is made from time to time as the consignments are made. As per the declaration made by the insured the amount of premium is decided. At the end of policy period the actual premium on various consignments is adjusted with the advance premium.

7. Block policy- Block policy is an insurance policy that covers all the risks to the property and goods insured from the place of origin to the place of destination. Even the risks during the inland transportation by roads or rails are covered in addition to the risk during the voyage by sea route. This policy covers the risk of marine perils as well as inland risk involved in a single policy. This policy is popular in gold mines of South Africa.
8. Blanket Policy. This policy covers risks to the insured property within a particular geographical area and within a particular time limit. Such policy is taken for a particular amount and full premium on the insured amount is paid at the time of taking policy. At the end of policy the premium amount is adjusted as per the risk covered.
9. Named policy- In the named policy name of the ship through which shipment of goods is made is specifically given along with the other details of the property insured, voyage details, details of insured etc.
10. Fleet policy- when the owner of many ships takes out single marine policy of all the ships it is called fleet policy. Fleet means a set of ships. Instead of taking a separate policy for each ship he takes a combined policy of entire fleet and saves time. The owner of the fleet has to made declaration about the number of ships and the value of fleet. While taking policy whenever new vessels are added or old vessels are disposed off the full description of such vessels is required to be given to the insurance company by him.

Clauses of Marine Policy

A marine insurance is a contract between an insured and insurance company. It contains the terms and conditions (or clause) that governs the scope of policy. Following are some important clauses of marine policy.

1. Name clause- the name clause of marine policy gives the names of insured, broker and the owner of the property.
2. Assignment clause- the marine policy is freely assignable. Assignment clause makes provision for absolute or partial transfer of benefits under the policy to a

person who may purchase the property insured at a later date. In marine insurance the ownership of cargo changes many times before it reaches the part of destination. Hence the owner of cargo has to assign the policy to the new owner. The assignment of marine policy is made through endorsement on policy or by mere delivery. In some cases blank transfer is made only by signing the papers for transfer and handling it over to the new owner without mentioning the name.

3. Lost or not lost clause-according to this clause the insurance company undertakes to indemnify the loss to the insured property even if it lost before the issue of policy. But the insured should have made the contract of insurance without any prior knowledge of actual loss to such property. Now a day with the latest technology the existence of insured property can be checked hence this clause has lost its significance.
4. At and from clause- this clause in the marine policy specifies the place at which and the time from which the risk of insurance company starts under the policy. ‘At’ means the place where the subject matter was present at the port and ‘From’ means the departure time of the ship when the risk commences. This clause is important from the point of view of insured.
5. Warehouse to warehouse clause- warehouse to warehouse clause in the marine policy specifies the original warehouse and warehouse of final destination. All the risk to the cargo from the warehouse of origin to warehouse of destination are covered under the policy. Eg. Menchester warehouse to Kolhapur warehouse cover all the inland and marine risks to cargo from the time the cargo leaves menchaster warehouse of exporter toll it safely reach the Kolhapur warehouse of importer. Extra premium is charges to cover inland risk.
6. Deviation Clause- Marine insurance policy normally gives the route of voyage of ship. If route is changes it is changes it is called deviation. Such deviations should be informed to the insurance company. If deviation takes place without informing the company the company then the company is not responsible for the loss after deviation takes place. If deviation is done for some inevitable reasons beyond the control, such as repair of ship, natural calamity, medical help protection of ship etc. the insurance company is liable to indemnity the loss after deviation
7. Sue and Labour Clause- according to this clause of marine policy insurance company undertakes to indemnify the reasonable expenditure incurred on sue and labour. Such sue and labour expenses include the expenses paid by the captain of the ship to minimize the loss to the ship, property and cargo insured.
8. Waiver clause- This clause in the marine policy authorizes the insurance company to take charge of the abandoned ship after paying the total loss of the cargo and ship abandoned.
9. Continuation clause- this clause may be included in the policy, According to this clause if the ship is in transit at the time of completion of period of insurance. Then the policy is continued for next one month period if the insured gives the notice for continuation. The insured can pay the premium when the ship reaches the port.

10. Perils Clause- this clause clearly gives the perils of the sea from which the insured property is covered under the policy. The general marine perils' are storms, collision, fire, war perils, jettison, pirates, arrests, detainment, seizure etc.
11. Tender clause – This clause authorizes the insured to repair the vessel if necessary during the voyage in any port and claim the expenses of repair. If insured neglects the repairs resulting in marine loss the insurance company can deduct 15% amount from the claim for such negligence.

Marine Losses

Marine insurance is a contract under which insurance company undertakes to indemnify the losses to the vessel, cargo, freight, commission and profits from the perils of sea such as storm, collision, pirates, fire, war jettison, seizure, detainment etc.

The marine losses are of following types.

Marine losses

Total Loss	Partial loss
a) Actual total loss	a) General Average loss
b) Constructive total loss	b) Particular Average Loss

I) Total Loss – The total loss takes place is the insured property is completely destroyed. e.g. if the ship is drowned into sea water or destroyed totally in collision it is a total loss. In case of total loss insurance company pays the actual value of loss or sum assured whichever is less. There are two types of total loss as under.

1. Actual total loss- actual total loss takes place if the subject matter of insurance is totally damaged or destroyed or the insured cannot possess it in future. For example 1) ship is totally destroyed by collision or fire, 2) ship is missing in sea waters for long time, 3) sea water has entered heavily is sugar bags or cement bags. It is actual total loss.

2. Constructive total loss – In case of constructive total loss the subject matter of insurance is not totally destroyed, but it is reasonably abandoned, (or thrown out) it cannot be repaired to bring it to original position. Constructive total loss takes place in following cases.

1. the cost of repairing the property is more than value after repair.
2. the property is reasonably abandoned because its total loss cannot be prevented.

For example a satellite is space stops working and we cannot bring it back on earth.

II Partial loss- when the property insured is not completely damaged or destroyed it is called partial loss. Following are the types of partial loss.

1) General Average Loss- It is a loss arising from the expenses voluntarily paid or sacrifices willingly made by the captain of the ship to preserve the cargo or ship from total distruction. Following are the feature of general averages loss

i) the loss, expenses or sacrifice should be made for preventing the large loss.

ii) such loss or expenses or sacrifice should be reasonable

iii) such loss should be voluntarily incurred in a special situation

2) Particular Average Loss- Particular average loss is a partial loss of subject matter insured caused by specified perils ad not a general average loss. It is a partial loss or damage to a ship or cargo resulting from an accident or normal perils or sea. Such loss is borne by owner of property or insurance company. Such loss can be recovered by insured from the insurance company if it is caused by perils specified in insurance policy. It has following features

i) It should be in the form of partial loss or damage of insured property.

ii) It should be accidental and not intentional

iii) it should be caused by perils mentioned in policy or direct or proximate cause mentioned in the policy.

It includes

a) Particular average on cargo

b) Particular average on freight.

Marine Perils

Marine insurance covers the marine property against losses arising from perils of sea that are mentioned in the policy. Insurance company is not liable to indemnify the losses caused by the inherent qualities of cargo or by the fraud , negligence or willful misconduct of insured. Following are such marine perils.

1. **Perils of the sea**: Sea perils include only the accidents and causalities of the sea. The important sea perils are losses of marine character or accidents to ship such as collision and heavy storm.
2. **Fire**: Sometimes fire may occur on ship and therefore fire is one of the insured perils. If the loss by fire is caused by the smoke or heat of fire resulting from lightening, explosion, negligence of the master or crew etc. the insurance company is liable for the claim if the insured has paid extra premium.
3. **Jettison**: Sometimes due to heavy load on the ship the entire ship may be drowned into sea. Hence the captain of the ship may throw some part of the cargo and heavy equipments into the sea to save the entire ship from

drowning. Such loss of owner of ship or owner of cargo falls under general average clause.

4. **Barratry**: Barratry is the wrongful act willfully committed by the master of the ship or crew of the ship to the benefit of owner or without the consent of owner. The loss caused by such a barratry is covered by the marine policy if such barratry is committed without the interest of owner and without the knowledge of the owner. But if master and crew of the ship are engaged in smuggling without the consent of the owner of the ship or shipping company the insurance company is not liable to compensate the loss arising there from.
5. **Enemies**: Enemy means *one who wishes and tries to harm or attack*. All the losses or damages by enemies are covered by marine policy.
6. **War risks**: Marine insurance policy covers the following type of war risks by paying extra premium.
   a) **Pirates or Rovers or Thieves**: Losses caused to the marine property by pirates, rovers or thieves are covered under the policy.
   b) **Men of war**: Any damage or losses caused to the marine property by the navel-forces of enemy country are covered under the marine policy.
   c) **Arrests, Restraints or Detainments**: Arrests means to take away forcefully by the police or army of a country. Restraints mean the prevention of free use of port by the government. Detainment means forceful stoppage of ship by the authorities of some nation for violation of some laws.