

G01 Marine insurance cover requirements of owners, shippers, etc.

G01a MARINE INSURANCE COVER AND BUYERS

G01a.1 Insurance cover of ship owners and managers

- * A **shipowner or ship manager** (acting on behalf of the owner) may require marine insurance cover against:
 - actual or constructive **total loss** of his ship's hull, machinery and equipment (**H&M cover**);
 - accidental (particular average) **damage** to his ship's hull, machinery and equipment (**H&M cover**);
 - liability to owners of other vessels (or their cargoes) with which his ship collides (**collision liability**);
 - liability for **general average charges**;
 - liability for **salvage charges**;
 - liability for damage done by his ship to a **third party's property**;
 - liability for **other third party risks**, e.g. cargo claims, personal injuries, pollution, wreck removal costs, etc. (called "**P&I risks**");
 - liability for **oil pollution claims**;
 - loss of earnings due to **strikes**;
 - loss of earnings due to operation of **war risks**;
 - loss of **freight**;
 - loss of **charter hire** (e.g. when vessel goes "off-hire" after sustaining damage);
 - **increased value, disbursements and excess liabilities** (an additional source of recovery over and above the hull and machinery insured value in case of total loss); and
 - **employer's liability** to workers.
- * A shipowner may need to take out other **special insurances** on an emergency basis in certain circumstances. When his vessel deviates from its contracted voyage in some respect, for example, **shipowners' liability insurance** (SOL) may be needed to protect the owner against the extra risks he incurs if he loses his defences to liability under the Hague or Hague-Visby Rules.
- * There is **no UK statutory requirement** for ships or goods to be insured. However, without insurance cover, shipowners and owners of goods would have to protect themselves by self-insuring¹.
- * For notes on certain risks not covered by the shipowner's H&M policy, see G04b.1.
- * **IMO Guidelines on Shipowners' Responsibilities in Respect of Maritime Claims**, adopted by resolution A.898(21) in November 1999 and explained in **MGN 135**, recommend owners of all seagoing ships of 300gt and over (and encourages owners of smaller ships) to ensure that liability for relevant claims up to the limits set under Articles 6 and 7 of the Limitation Convention or any lower limit which the shipowner may invoke, is covered by insurance. The Guidelines recommend shipowners to ensure that their ships have on board a **certificate** issued by the insurer; an appropriately worded P&I Club **Certificate of Entry** will meet this recommendation (see G04b.1).

G01a.2 Insurance cover of sellers or buyers of goods for shipment

- * A **seller or buyer of goods for shipment** may require insurance cover against:
 - loss of or damage to his **goods in transit**;
 - loss of earnings due to **strikes**;
 - loss of earnings due to operation of **war risks**;
 - liability for **general average charges**;
 - liability for **salvage charges**.
- * The **party** obliged to obtain the insurance cover will depend on the terms of the **sales contract** (see F03a and F03b).

¹ A few major shipowners carry all or part of their own hull and machinery insurance. Alfred Holt & Co. were well known for self-insuring their Blue Funnel Line ships.

G01a.3 Insurance cover of time and voyage charterers

- * A **time charterer or voyage charterer** may require insurance cover against:
 - **legal costs and expenses** arising from disputes concerning, for example, hire, freight, deadfreight and passage money, general and particular average, demurrage or despatch, detention, breach of charter party, bill of lading etc., the proper loading etc. of cargo, quality of bunkers supplied.
 - **liability for:**
 - loss of or damage to the **vessel**;
 - loss of or damage to **cargo**;
 - **oil pollution** other than that arising from a tanker in US territorial waters
 - loss of or damage to **third party property**;
 - **death or personal injury claims**;
 - **fin**es;
 - damage to **fixed property** (e.g. wharf or dock);
 - **wreck clearance** costs;
 - proportion of **general average or salvage charges** not covered by any other insurance;
 - **liability** arising from **breach** of or **deviation** under a **bill of lading** (e.g. cargo carried on deck against underdeck bills of lading);
 - **physical loss of charterer's bunkers**;
 - loss of **freight** at risk;
 - **oil pollution** arising from a **tanker in US territorial waters**; and
 - **stowaway costs**.

G02a.3 P&I Clubs

- are properly called "**protection and indemnity associations**". ("Protection" in the title originally referred to shipowners' protection from the one fourth of collision liability that, traditionally, London hull and machinery insurers did not cover, while "indemnity" referred to the club's indemnity, or compensation, for liability to cargo under a contract of carriage.)
- are associations of member shipowners and charterers, owned and controlled by the insured shipowner or charterer members, for the purpose, basically, of **mutual insurance against third party liabilities** which arise in connection with the operation of ships.
- include the 13 members of the International Group of P&I Clubs (and their 4 associate clubs) (see G02a.3a), and a number of small independent clubs. There are also some P&I facilities in the commercial insurance market. The Charterers P&I Club offers cover for time and voyage charterers.
- mostly offer two principal types of cover: **Protection and Indemnity** (called "**P&I**"), and **Freight, Demurrage and Defence** (called "**FD&D**") (see G04b.1).
- retain representatives called **correspondents** in many ports, as well as reliable lawyers and surveyors.
- issue books containing **club rules** and **lists of correspondents**, and in some cases **master's handbooks**, which are very useful to a master seeking advice and assistance when in any kind of trouble on board ship, e.g. in a pollution incident, a casualty, when under arrest, when under pressure to sign "clean" bills of lading, etc.
- disseminate **loss prevention information** in circulars, bulletins, booklets, videos, etc., aimed at keeping members' premiums down.
- produce **standard forms** of letters of indemnity and protest.
- * For notes on **cover available from P&I clubs**, see G04b.1. For notes on **P&I claims**, see G07b.

G02a.3b P&I club control and management

- * P&I clubs -
 - are **controlled** by boards of directors representing the shipowner members. Large claims are examined and approved by the directors at regular meetings before payment is made.
 - are **managed** by firms of insurance experts, maritime lawyers and mariners.
 - operate on a **non-profit-making** basis.
- * In some clubs, members' entered ships may be subjected to random **ship inspections** concentrating on the management of the vessel. If failed, a more intensive **condition survey** by independent surveyors may be called by the club's managers. An owner who fails to keep his vessel in the condition required by the club's rules may be expelled from the club.
- * Managers generally strive to keep the "calls" on members at a minimum, e.g. through **loss prevention** methods such as **information bulletins**, **handbooks** and **videos** aimed at owners and ships' officers. (These should be on board entered ships, and not kept in owners' and managers' offices.)
- * Whereas market marine insurers only entertain a claim covered by a peril insured against, P&I clubs assume the conduct of **any matter** likely to give rise to a claim against a member. The shipowner, instead of having to "sue and labour" to minimise the claim against the insurer (see G04a.2c), consults his club managers or, if his vessel is overseas, the nearest correspondent of the club.