NAROTTAM MORARJEE INSTITUTE OF SHIPPING

MUMBAI

Examination Paper – March 2019

Fellowship/Post Graduate Diploma in Shipping Management – Final Year

RISK MANAGEMENT & MARINE INSURANCE

10.03.2019 **Total 100 Marks** **Time: 3 Hours.**

NOTE: Attempt question number ONE which is compulsory and any other SIX questions. Question number one carries 16 marks while all other questions carry 14 marks each.

Qu. 1

(a) Explain general average. [3]

(b) A general cargo ship valued at 4 million USD encountered serious cargo fire in one of its cargo holds. At the time the vessel was on time charter and had four cargoes A; B; C; and D valued at 1,500,000; 100,000; 500,000 and 100,000 respectively. The value of the bunkers owned by the time charterer was 10,000. Cargoes A and C were partially damaged due to fire and the extent was estimated to be for 40,000 and 30,000 respectively. The charges for the firefighting tugs paid by the ship owner were 160,000. While fighting fire cargo A and C were damaged to the extent of 15,000 and 5000 respectively. The damage due to cutting the bulkhead so that the firefighting team could reach the seat of fire was repaired at 10,000. Calculate:

(i) Total amount of GA [3]

(ii) All contributory values [5]

(iii) Amount of GA contributed by each interest [5]

Qu. 2

(a) Briefly explain the risks covered clauses of the three Institute Cargo Clauses, 1.10.82. [8]

(b) Which additional risks can be covered under ICC (B) and(C) by paying extra premium? [6]

Qu. 3

(a) What is the role of the International Group of P&I Clubs? [6]

(b) A ship owner has purchased a new ship and wants to insure the third party liabilities. Explain any five such liabilities, including the mandatory ones, which should be insured. Selected liabilities must be clearly different from each other. [8]

Qu. 4

(a) Explain the principle of subrogation with an example from shipping operation. [7]

(b) Explain the difference between marine insurance and other types of insurances? [7]

Qu. 5

(a) What is Collision Liability of a ship owner (not the collision liability clause)? [2]

(b) Vessel 'A' collides with vessel 'B'. The damage on two ships was 8,000,000 and 2,000,000 each while the insured values were 20 and 4 million respectively. Both were blamed 50% each for the collision. The deductibles for ship 'A' for H&M was 300,000 and for P&I was 50,000. Similar figures for ship 'B' were 150,000 and 20,000 respectively.

(i) Calculate the total collision liabilities of both ships. [3]

(ii) Calculate the amount paid by the hull insurers of both ships [3]

(iii) Calculate the amount paid by the P&I clubs of both ships [3]

(iv) Calculate the amount that the owners of both ships will have to bear as the same will not be covered by insurances. [3]

Qu. 6 Risk management is necessary in today's competitive environment. Explain this statement in detail with suitable examples. [14]

Qu. 7

Write short notes on:

(a) Actual total loss [3.5]

(b) Forwarding charges in cargo insurance [3.5]

(c) Warranties [3.5]

(d) Assignment [3.5]

Qu. 8

(a) Explain constructive total loss with example. [6]

(b) What is notice of abandonment and who gives it? [4]

(c) What is deductible and how is it used in partial and total loss? [4]

Qu. 9

Answer the following questions <u>in at least FIVE lines</u>. Marks will be awarded on the basis of the clarity of thought and reasoning: [14]

(a) A tanker is in ballast and has engine breakdown during a voyage when the ship is passing near an island. The Master drops an anchor so that the drifting ship does not run aground. The vessel is saved and in the meanwhile the engine starts and the ship continues on its original voyage. In this process the ship lost the anchor. Can the ship owner claim from insurance for the loss of the anchor considering that this intentional action of the Master would probably result in the loss? [5]

(b) A ship ran aground and had extensive bottom damage. The ship was insured under ITC (Hulls), 1.10.83 clauses. What could be the proximate cause of the damage which is included in the risks covered so that the ship owner could claim from the insurance company for the damage? [5]

(c) A stevedore died on board a vessel while engaged in discharging general cargo. The family claims from the ship owner. Can the company recover this claim from its H&M insurance? [4]

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EXAMINATION – MARCH 2019

SUBJECT : RMMI.

Q	1	2	3	4	5	6	7	8	9	10	11	12	Total
M	16	6	11	11	14		12	12					82

WRITE BELOW

1. (a) General Average :-

An act of general average is applied when and only when a voluntary and reasonable extraordinary sacrifice or expenditure incurred to save the property from the peril in common maritime adventure.

Essential features of the General Average are.

i) Common maritime Adventure-

There must be two or more than interest are at the risk. Such are Ship, Cargo, freight, loading equipment charterer bunker etc.

ii) Peril :-

Property or interest must be real and substantial but not imaginary.

iii) Extraordinary sacrifice or Expenditure :-

These sacrifices or expenditure should be extraordinary and not normal. This means that cargo owner or other interested parties do not expect S/O or the master to act in normal contractual obligation.

Ex:- Jettison of cargo, cutting of hull to reach seat of fire, cutting tug etc.

iv) Intentional :- act must be voluntary in nature and exclusively decided by the consent of the master.

v) Reasonable :-

As all the interest / property having commercial implication. master needs to act prudently for the sacrifice or expenditure. It should not be unreasonable.

vi) Success :-

Act of GA should result in success otherwise if the subject or interest lost even after doing sacrifice or expenditure GA will not be applicable.

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①. (b) GENERAL AVERAGE CALCULATION :-

INTEREST	Sound Value	Particular Loss	Contributory Value (SV − PL)	GA Loss	GA Exp.	GA	Net Arrived Value (SV−PL−GA loss)	Contribution	%
Ship	$4000,000	-	$4,000,000	$ 10,000	$ 160,000	$ 170,000	$3990,000	$ 123778.50	3.0945
Cargo A	$ 1,500,000	$ 40,000	$1,460,000	$ 15,000	-	$15,000	$1,445,000	$ 45179.15	3.0945
Cargo B	$ 100,000	-	$ 100,000	-	-	-	$ 100,000	$ 3094.46	3.0945
Cargo C	$ 500,000	$ 30,000	$ 470,000	$ 5,000	-	$5,000	$ 465,000	$ 14544.00	3.0945
Cargo D	$ 100,000	-	$ 100,000	-	-	-	$ 100,000	$ 3094.46	3.0945
Bunker of Time Charterer	$ 10,000	-	$ 10,000	-	-	-	$ 10,000	$ 309.446	3.0945
Total	$6210,000	$ 70,000	$ 6,140,000 (3.0945%) of contribution.	$ 30,000	$169000	$ 190,000	$6,110,000	$190,000.	

5

Answer :-

3

i) Total Amount of GA = US$ 190,000.

ii) All Contributory Values = US$ 6,140,000

iii) Amount of GA contributed by Each Interest is 3.0945% of contributory value of each party as follows.

Shipowner	-	$ 123,778.50
Cargo A	-	$ 45,179.15
Cargo B	-	$ 3094.46
Cargo C	-	$ 14544.00
Cargo D	-	$ 3094.46
Time charterer (for bunker saved)	-	$ 309.446
total	=	US$ 190,000.

5

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5. (a) Collision Liability of a Shipowner :-

In case a Vessel 'A' of a Shipowner ~~of A~~ B come in collision with another vessel 'B' of either same Shipowner or another shipowner then ~~#~~ each Shipowner is liable to pay for the loss, damages etc. in the proportion of liability or blame or fault decided by the court or arbitration to the other Shipowner. following damages can be claimed by other Shipowner ~~and the~~ for payment to (each other) -

- loss or damages to the other vessel and property thereupon.
- delay of use of the other vessel or the property on other vessel.
- General Average, Salvage, and/or any salvage contract made of the other vessel
- Wreck removal of the other vessel.
- loss of life or injury or illness of the other vessel persons.
- Pollution claim of the other vessel
- ~~a~~ any real or personal property loss or damage to the other vessel.

5 (b).

	A	B
Damage to Ship	8,000,000	2,000,000
Insured value	20,000,000	4,000,000
Blame	50%	50%
Deductible for H&M	300,000	150,000
Deductible for P&I	50,000	20,000

Collision liability of A (50% of damage on B)	Collision liability of B (50% of damage on A)
Ship = 1,000,000	Ship = 4,000,000
Cargo = 0	Cargo = 0
Pollution = 0	Pollution = 0
Injury = 0	Injury = 0
Total collision liability of A = 1,000,000	Total collision liability of B = 4,000,000

	A	B
Collision liability Clause - 3/4th of the collision liability of ship & cargo - limit to 3/4th of the sum insured value (X)	15,000,000	3,000,000
3/4th collision liability to be paid by H&M for ship & cargo damage (Y)	750,000	3,000,000
Balance 1/4th collision liability to be paid by P&I (Z)	250,000	1,000,000
Partial loss of ship (individual) to be paid by H&M (P)	8,000,000	2,000,000
total payable by H&M (Q = Y + P)	8,750,000	5,000,000
Less Recovery from other ship (R)	(-) 4,000,000	(-) 1,000,000
payable by H&M (S = Q - R)	4,750,000	4,000,000

	A	B
Payable by P&I (Z)	250,000	1,000,000
Deductible of P&I (E)	50,000	20,000
Net Payable by P&I (Z-E)	200,000	980,000

Cross check -

total payable by H&M = 8,300,000
(including both ships)

total payable by P&I = 1,180,000
(including both ship)

All deductibles including both ship H&M And P&I = 520,000

Total (M) = 10,000,000.

Damage of ship A = 8,000,000
Damage of ship B = 2,000,000

total Damage (N) = 10,000,000

∴ Here, ~~Same~~ M = N

~~[illegible]~~

Total Payable including deductible = Total Damage

Answer 1.

(i) Total collision liabilities of both ships
collision liability of A = 1,000,000
collision liability of B = 4,000,000.

(ii) Amount paid by the hull insurers of both ships.
Paid by H&M of A = 4,450,000
Paid by H&M of B = 3,850,000

(iii) Amount paid by the P&I clubs of both ships.
Paid by P&I of A = 200,000
Paid by P&I of B = 980,000

(iv) Owners of both ships will have to bear as the same will not be covered by insurance.

Owner of 'A'

Deductible of H&M	=	300,000
Deductible of P&I	=	50,000
Total owner of A to bear	=	350,000.

?

Owner of 'B'

Deductible of H&M	=	150,000
Deductible of P&I	=	20,000
Total owner of B to bear	=	170,000.

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7. (a) Actual Total Loss (ATL) :-

Actual total loss of the subject matter insured can happen in three cases as —

i) the insured subject matter is completely destroyed. Ex:- Ship is sunk.

ii) the property of the subject matter is so much altered or changed that cannot have the original property or cannot be used for the purpose usable prior damage.
Ex:- Cement solidifies and cannot be used.

iii) the possession of the subject matter is deprived by the insured for reasonable time and there is no hope of recovery.
Ex:- Ship is missing.

In all the above cases the subject matter insured will be considered as of ~~total~~ Actual Total Loss. The insurer / assured has to inform of such case and if the insurer satisfies on the veracity of the case, the insurer will pay the insured value as agreed and mentioned in the policy.

WRITE BELOW

7. (b) Forwarding charges in Cargo insurance :-

In case the Ship is going to the Port of Distress or Port of Refuge and the Cargo needs to be unloaded, subject to insured peril. the insurer will cover the charges for

- Unloading the Cargo at Port of distress
- Warehousing at the Port of distress
- Forwarding the Cargo to the final destination as mentioned in the policy.

However, such Charges will not be payable if there is willful misconduct of the insurer.

7. (c). Warranties :-

Warranties is one of the important issue as per the Marine insurance act, by which the insured or Assured promises to the insurer for

- some of the things shall or shall not be done
- some condition needs to be fulfilled
- while declaration of some of the facts are affirmed or negated.

so, the Assured indemnifys the insurer against such warranties.

Warranties are of two types -

i) Implied Warranty -

In marine insurance due to the nature of trade some warranties are implied and needs to be fulfilled by the Assured even such warranty are not mentioned in the policy.

Ex:- Shipowner has to have 'due diligence' for the seaworthiness of the vessel prior commencement of each voyage.

ii) Expressed Warranty -

Expressed warranties are those conditions which mentioned in the policy and same to be adhered by both the parties. (insurer & assured)

Ex:- Vessel not to breach International navigational limit (INL) or INL without the consent of the insurer.

Vessel always to maintain class.

In case of breach of warranty the policy becomes null and void.

7. (d). Assignment :-

Assignment is one of the important issue of the Marine Insurance.

Assignment is the transfer of the rights and liabilities to the 3rd party due to transfer of the insurable interest in the property or subject matter insured.

Assignment is allowed unless prohibited by the policy.

Assignment ~~can be~~ is allowed before or after the loss also.

Cargo Insurance is assignable as the ownership of the Cargo changes ~~from~~ the shipper to the consignee. Normally cargo insurance is taken for ~~the~~ 110% of CIF value. In case of FOB term, after the cargo is shipped on board the ownership rights and liabilities transfer to the consignee. So Cargo Insurance is assignable.

However, the H&M policy is not assignable as change of ownership changes the risk profile of the ship. for maintenance, repair, class, flag, etc.

3

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(8). (a). Constructive Total Loss (CTL) :—

Constructive Total loss (CTL) of the subject matter is declared when the repair or recovery cost is ~~going~~ more than the insured value.

CTL can be declared in following cases —

i) ~~Possession~~ Assured is deprived of the possession of the subject matter for long time and very rare chances of recovery or recovery cost of the subject matter is more than the insured value.

ii) The subject matter Ex. Ship is so damaged that the repair cost of the ship is more than the insured value.

iii) The subject matter such as any goods, machinery is so damaged that the cost of recovery, repair, reconditioning and forwarding to the destination is more than the insured value.

In all the above cases the subject matter or insured property will be considered as Constructive total loss (CTL).

The Assured need to inform to the insurer and ~~with~~ after verification insurer can declare CTL and pay to the Assured of total sum insured value.

WRITE BELOW

(8) (b) Notice of Abandonment :-

In case the ship is aground or damaged in such a state that recovery is not possible or the cost of recovery, ~~or~~ repair is more than the insured value i.e. Case of CTL the master of the vessel / Assured declare the case of CTL and give Notice of Abandonment to the Insurer.

There is two situations :-

i) Insurer accept the Notice of Abandonment, pay the Assured the insured value and take charge of insured property.

But in this case, the rights and liabilities, wreck removal or other claims & compensation also transfer to the insurer. ~~and also~~

Due to some reason —

ii) Insurer do "not" accept the Notice of Abandonment, pay the Assured the insurance value.

the responsibility of the wreck removal, & payment of claims & compensation are the ~~l~~ liabilities of the Assured / Shipowner.

8.(C). Deductible :-

Deductible is the amount, as agreed between the Assured ~~&~~ and insurer, mentioned in the policy. Incase of any claim ~~due~~ for the loss or damages due to insured peril, ~~of the~~ the claim amount is deducted by the amount of deductible and rest payment is done.

Ex:-

Deductible - $100,000

	Claim - A incident	B Incident
	$ 90,000	$ 200,000
Less: Deductible	(-) $100,000	(-) $100,000
Insurer by	0 (zero)	$100,000.

~~Ad~~ Advantage of Deductible -

i) Minor claims are away as administrative cost of finalizing the claim are expensive & cumbersome.

ii) It gives the onus on the Assured to be careful and exercise due diligence for maintenance.

iii) Higher the deductible lower is the premium.

It is one kind of RISK RETENTION by the Assured.

Deductible is deducted on the aggregate of all the claim due to one occurrence or incident due to insured peril.

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Deductible is deducted in case of
i) Partial Loss
ii) General Average
iii) Sue & labour charges.
iv) Collision Liability.

Howevever in case of Total Loss either Actual Total Loss or Constructive Total Loss Deductible is not applied and whole insured value is paid.

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2 a These are three Institute Cargo Clauses
Institute Cargo Clause 'A'
Institute Cargo Clause 'B'
Institute Cargo Clause 'C'

Institute Cargo Clause 'A' covers "ALL RISKS" including General Average & Salvage except exclusions as per clauses 4, 5, 6 & 7 of the Institute Cargo Clause.
Risk covered under for Institute Cargo Clauses 'B' & 'C' as under except exclusions as per clauses 4, 5, 6 & 7.

RISK	INSTITUTE CARGO CLAUSE 'B'	INSTITUTE CARGO CLAUSE 'C'
1. Fire & Explosion	Yes	Yes.
2. The stranding, grounding, capsizing of the vessel	Yes	Yes.
3. Derailment or overturning of the land conveyance	Yes	Yes.
4. Discharging of the cargo at port of Distress	Yes	Yes.
5. Contact of the vessel, craft ~~land~~ conveyance with the object other than the water	Yes	Yes.
6. Earthquake, volcanic eruption, or lightening	Yes.	No.
7. General Average & Salvage	Yes	Yes.
8. Jettison	Yes	Yes
9. Washing overboard	Yes	No.
10. Entry of sea, river, lake or navigable water	Yes	No.
11. partial loss or overboard or complete damage while loading & discharging.	Yes	No.

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WRITE BELOW

2 (b) Following Additional Risks can be covered under ICC(B) and ICC(C) by paying extra Premium -

- Violent Theft
- Piracy
- Damage of Cargo due to entry of rain water.
- ICC (C) can insure risk of either of one or any one of Earthquake, Volcano eruption lightening, Washing overboard. Entry of water & damaging cargo. While loading and discharge.
- Damage due to third party.
- War risk
- Strike risk

6

(4). (a) Principle of Subrogation :-

Principle of Subrogation is one of the ~~[illegible]~~ important principle or pillar of the insurance.
Whereby the Assured transfer ~~the~~ his rights and Remedies to the insurer, after the insurer paid the claim amount to the assured, to recover or claim from the responsible party for the such loss or damage of the subject matter insured.
And such damages occurred due to the insured peril.

Example :-

CARGO INSURANCE -

In case of cargo loss or damage the assured put claim on the shipowner with relevant document such as claim ~~[illegible]~~ form, B/L, commercial invoice, survey report for loss or damage. At the same time report to the Insurer.

When Insurer pay the claim amount to the cargo owner, the cargo owner issue the subrogation letter (mentioning transfer of rights and remedies) ~~[illegible]~~ in name of insurer and also submit one copy of subrogation letter to the shipowner.
Then Insurer will take the claim matter and get recovery from the shipowner.

Principle of the Subrogation is based on the principle of the Indemnity also, whereby the insurer indemnify the Assured for making good the loss and cover financial loss which occured due to such loss or damage. It should not happen like the Assured get payment from the Insurer as well as form the responsible party ~~of~~ for the damages And make Profit out of the loss or damage.

6

Q (b). Difference between Marine Insurance and other types of Insurance. :-

Marine Insurance	Other types of Insurance
1. Insurable interest needs to be proved only at the time of loss. of Cargo	1. Insurable interest needs to be proved at the time of taking Insurance as well as at the time of loss.
2. Marine Insurance sum insured value is the agreed value between the Insurer and Assured.	2. other types of Insurance insured value is assessed by the insurer except Life Insurance.
3. Marine Insurance covers against marine perils.	3. other types of Insurance do not cover against marine perils

Marine Insurance	Other Types of Insurance
4. Marine Insurance having implied warranty of seaworthiness	4. Other types of Insurance not having implied warranty of seaworthiness.
5. Shipowner has to exercise due diligence for seaworthiness prior commencement of the voyage.	5. Due diligence of the assured requires all the time.
6. Cargo Insurance is assignable, however H&M Insurance is not assignable.	6. Most of the other types of Insurances are not assignable.
7. Marine Insurance are subject to Marine Insurance Act 1963.	7. Other types of Insurances are subject to other acts provided by IRDA.
8. General Average ~~Salvage~~ Clauses are in Marine Insurances.	8. No General Average Clauses.
9. Marine Insurance having agreed manner betn Insurer & Assured.	9. Manner is already stipulated.
10. International in nature (Cargo Insurance, Hull)	10. Domestic in nature.

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WRITE BELOW

3) a) International Group of P&I Clubs :-

IG of P&I Clubs is a pool of 13 reputed P&I clubs such as American Steamship, Britannia, Gard, Japan, London, North of England, Steamship's mutual, Swedish, Shipowner's mutual, Skuld, ~~Sco~~ West of England, UK.

Shipowner's liability ~~are~~ were becoming huge and sometimes unlimited and for such case it was very difficult to give Protection & Indemnity cover to Shipowner's due to huge liabilities by any individual P&I club. Liability may be going upto 3billion, 2billion etc.

Due to such huge claims ~~a~~ major P&I Clubs ~~(...)~~ (13) came together and formed International Group of P&I Clubs for sharing the risk.

Various Role of International Group of P&I Club are as under :-

i) While individual club pay upto 10 million USD, the IG pool will pay ~~to~~ next 90 million USD i.e. upto 100 million USD can be covered by the IG of P&I Club.

ii) ~~...~~ ...

from individual P&I club.

iii) Representation from individual P&I club and same manged by the managers appointed.

iv) keeping track of all the claims.
v) keeping track of reserves.
vi) taking decision on the Re-insurance for covering liability claim upto 3.1 billion USD
vii) Doing research and giving training.
viii) Giving Advice to individual and industry for precautions and safeguarding against claim, liability, damages etc.
ix) taking decision on the kind of liabilities can be covered under P&I.
x) monitoring working of individual P&I club and safeguarding undue business of individual P&I club.
xi) Publishing various information circulars for the benefit of the P&I and shipowners

xii) Representing internationally and raising voice of the concerned of P&I club and shipowners interest.
Ex:- One of the major achievement to have SCOPIC clause incorporated in the salvage LOF form and making compensation accordingly.
xiii) Hard negotiation on account of P&I, representing to IMO, ILS, ITO and raising various concern.
xiv) Instrumental in having rules, regulation

(3) (b). Shipowner various third party liabilities are insured by the P&I Clubs. Important five such liabilities, including mandatory ones are :-

(I). Loss of life, Injury, illness - liability arises due to same -

(a) by Ship's master, Officer and crew :-
Under MLC convention it is mandatory to have insurance for loss of life, injury, illness, repatriation and wages (not paid due to loss of v/l etc.).

(b) liability arises due to loss of life, injury of the Passengers :-
Such liability is also covered.

(c) liability arises due to loss of life, injury of other third party as Stevedores, Surveyor etc.

(II). Pollution Liability -
It is mandatory to have insurance for Pollution Damage due to ~~oil tanker~~ persistent oil as cargo by CLC and bunkers. It covers liability upto 1 billion USD.

(III). Wreck Removal :-
Presently most of the Flag State made mandatory to have insurance for wreck removal and based on such insurance

so, shipowner has to take insurance for liability of wreck removal from P&I.

(12). Collision Liability :-

most of the H&M Policy only cover upto 3/4th of the collision liability due to other ships and also having several exclusions.

So, any collision liability which is not covered by the H&M or not paid due to insufficient insurance value, the P&I pay such amount and insure same.

(13). Cargo loss or Damages :-

P&I also covers liability of the shipowner for the cargo loss or damages with deductibles.

Apart from above P&I Club cover various other liability such as-

Deviation, Stowaway, ~~to~~ Any fines, fixed & floating object ~~dam~~ contact damage, non-contact damage etc. and also having omnibus rule for deciding any other liability which is not covered in rule.

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