

Marine

News

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Marine Insurance - What Do You Really Need?



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As one of the most ancient forms of insurance, marine insurance has taken on many shapes and forms in this modern world. In order to make informed decisions when procuring marine insurance, it is important to know the basics of what types of insurance are available to vessel owners as well as what each type of policy covers.

Marine insurance protects vessel and cargo owners from losses sustained as a result of "the Perils of the Sea." Perils are extraordinary actions causing damage to a vessel or her cargo. Typically, this definition also includes accidents or mishaps in navigation which are not anticipatable. Some common examples of perils are: collision, foundering, stranding, fire, barratry (an act of the Master against the vessel or her cargo), hitting ice or rocks, or even waves from a passing ship. Most insurance policies also cover losses due to theft. As such, it is important to clarify with your insurer whether or not your policy covers clandestine theft or pilferage.

Marine insurance can be separated into three categories: hull and protection and indemnity coverage, cargo coverage, and marine liability coverage. Hull coverage protects the vessel itself and its machinery. These policies typically cover physical damage, salvage costs and also provide collision liability - also known as a "running down clause". Protection and indemnity coverage, also called "P & I" coverage, covers bodily injuries and property damage caused by a vessel. It not only covers collision liability not included in a "running down clause," but also covers other important potential liabilities. Essentially, while P & I policies insure the vessel owner's incurred liability, it is important to find out what exactly is and is not covered by the policy in order to make an informed decision about what additional coverage you need to purchase.

When looking to obtain hull insurance, there are some

important issues to be aware of. Some policies have deductibles, or deductible-like provisions, which create a minimum amount of damage before the insurer pays on the policy. A deductible in a marine policy works just as it would with any other insurance policy. An insured must pay a certain amount themselves, and the insurer will cover any amount above that to repair the injury.

However, some policies use a different provision called a franchise. A franchise is a minimum amount of damage that must be incurred before the insurer covers the loss - but then the full amount of damage, including the franchise, is covered, up to the policy limit. These deductibles and franchises protect insurers from liability for the normal wear and tear a vessel suffers due to its everyday use.

Two other important clauses to be aware of in hull policies are Inchmaree Clauses and Sue and Labor Clauses. An Inchmaree Clause covers latent defects in the hull and machinery. This protects the buyer of a vessel from injuries caused by flaws in the design, or in the manufacturing of the vessel, which may take time to reveal themselves but can be the cause of an accident or injury. Sue and Labor Clauses dictate that a vessel owner is required to take necessary measures to repair the vessel after damage occurs. If the repairs are successful, the owner is compensated for the reasonable costs of the repairs. If the repairs are unsuccessful, the insurer must pay for both the total loss of the vessel, and the repair costs the owner incurred in attempting to save the vessel from further injury. While it may sound counterintuitive for insurers to do this, it forces vessel owners to attempt to salvage a damaged vessel before the insurer becomes liable for the total loss of the insured vessel.

If you are purchasing a vessel that has the potential to fluctuate in price, or could be costly to replace, some insurers allow vessel owners to purchase "Increased Hull Cover" or "Hull Interest" policies. These policies allow an owner to take out a policy for an amount greater than the fair market value of the vessel. This protects an owner against fluctuations in price throughout the year, while also providing the owner with money that may be needed

to cover administrative costs incurred while procuring a replacement vessel.

Cargo insurance covers goods on vessels in transport. It is usually obtained shipment by shipment, but can also be purchased for a set period of time. Cargo policies can be separated into three types of coverage: "all risk policies," "with average policies," and "free from particular average policies."

"All risk" policies offer the most protection, covering all losses attributable to external causes. Though called "all risk" policies, misconduct and fraud normally prevent recovery. Additionally, insurers can also specify additional risks not to be included in the coverage.

"With average" policies provide that, unless a stated percentage of the insured's cargo is lost due to injury, the insured is not entitled to coverage. An "average" is just another word for a partial loss. In an effort to protect themselves from losses sustained due to the inherent susceptibility of the goods, and/or the nature of shipping goods on vessels, insurers came up with the "average." For example, when shipping glassware or when shipping perishable goods, some will break and some will perish - but not due to a peril at sea. This average, or partial loss, is also called a "trade loss." If more than the assigned percentage is damaged, the inference is that a peril at sea caused the loss - not the cargo's inherent susceptibility to injury. It is important to note that the required percentage acts as a franchise, and not a deductible. If the loss is greater than the assigned percentage, the insured is compensated for the entire loss, because it is inferred the loss is due to a covered peril at sea.

In plain language, "free from particular average" (FPA) coverage provides that an insured is not covered for a partial loss to his insured cargo unless it results from some enumerated event, occasion, or peril. These policies provide less protection for cargo by only covering partial losses if, and when, certain perils or events occur. Some FPA policies require the loss to be a direct result of the enumerated cause, while some only require that an event occurs, followed by a subsequent injury. It is important to talk to your broker about which provision your policy contains.

If cargo will be going from a warehouse to another warehouse, or other inland destination, you may consider making sure your policy contains a "warehouse to warehouse" clause, which insures the cargo while being transported, moved, or loaded from, or onto, land. Depending on the carrier, this may also be called a "shore clause," and is made for anyone knowing their cargo will be moved

inland in the course of its transport.

As you can see, marine liability policies are tailored to address the specific needs of vessel operators. While you may or may not need certain coverage, it is important to know that they exist so that you can make an informed choice when purchasing insurance. In addition to this basic hull, cargo and P&I coverage, many insurers have specialty policies for stevedore liability, wharfinger liability, terminal operator's liability, ship repairer's liability, ship builder's liability, charterer's liability, etc. and cover different exposures specifically related to the nature of each industry.

In addition to these traditional marine policies, many insurers are beginning to offer what is called a "Marine General Liability" policy. These policies combine a traditional "Commercial General Liability" policy with other coverage specific to the marine industry, such as P & I coverage, or different legal liability coverage. While these relatively new policies address the unique needs of vessel operators, it is important to watch out for insurers limiting the policy coverage which you would normally expect from a Commercial General Liability policy. So, while a Marine General Liability may look and feel like it is providing typical Commercial General Liability coverage, it may in fact have many limitations on the insurer's possible exposure to liability.

For the cautious vessel owner, many insurers provide excess insurance policies. Excess insurance is also known as an Umbrella policy, and in the marine market may also be referred to as a "Bumbershoot Policy." These policies provide higher limits for primary liability coverage, such as general liability, P & I, legal liability, etc. Once the primary coverage is exhausted, the excess insurance policy steps in and provides coverage.

While this article is by no means an exhaustive explanation of the intricacies of marine insurance, it aims to inform vessel owners about some of the common policies available, and what to be aware of when obtaining insurance. Due to the increasing cost of insurance and the payment of claims, this is an area where a little knowledge can go a long way towards maintaining the profitability of your fleet.

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