

# **Marine Insurance: Brief Introduction to the Basics**

**By Dr. Iliana Christodoulou-Varotsi**

**Consultant & Industry Trainer**

**Visiting Lecturer ALBA Graduate Business School  
American College of Greece**

**Isalos Summer Seminars 2019**

**Aikaterini Laskaridis Foundation**

**10 July 2019**



# What is risk?

**Risk=something that might happen, not a certainty**

- Effect of uncertainty on objectives ...**
- Combination of a probability and its consequences...**

**Can you think of shipping without  
insurance?**

## Big catastrophes:

- HMS Lutine (perhaps Lloyd's most famous maritime loss)
- Titanic
- Exxon Valdez
- Piper Alpha & Deepwater Horizon (off shore)





## **Oldest forms of marine insurance:**

- Bottomry loans: compensations advanced before the actual loss of a ship**

- Lloyd's Coffee House in London (17<sup>th</sup> century): transformation into an organisation of underwriters**



# According to Allianz Global Corporation & Specialty Safety and Shipping Review 2019:

30 losses  
caused by  
foundering/  
sinking in

2018

2,698 shipping incidents in 2018.  
Machinery damage top  
cause

1 in 4 losses in 2018 happened in  
South China, Indochina, Indonesia  
and Philippines

48 piracy incidents in  
Nigeria in 2018



# Three main types of marine insurance

**Hull &  
Machinery**

**P&I**

**Cargo**

# H&M

## Property insurance (ship, machinery, equipment)

- Total loss of the ship
- Groundings
- Explosions and fires
- Collision liability
- Collision with other objects (fixed and floating objects)

# H&M

## Who are H&M insurers?

- Companies (Company market)
- Syndicates (Lloyd's of London)



# P&I

**Mutual associations of shipowners and charterers who cover legal liabilities to third parties from the operation of the ship**

**Who is a third party?**

**Any person other than the owner who has a claim against the ship**

# P&I

- Collision liability (with another ship) (the 1/4<sup>th</sup> not covered under marine hull policy)
- Liability when ship strikes with a fixed and floating object
- Repatriation expenses crew
- Financial security of the shipowner under ILO MLC 2006
- Wreck removal

# P&I

- Liabilities loss of life, personal injury, illness
- Liability under towage contracts
- War risks
- Liabilities in relation to oil pollution

## What is the International Group of P&I Clubs?

Unincorporated association comprising 13 members (P&I Clubs)

Group's secretariat based in the City of London

It provides liability cover for approximately 90% of the world's ocean going tonnage

While each Member remains independent, they share their large loss exposures (claims' sharing arrangements known as 'pooling') + collective reinsurance of such arrangements

Sharing expertise

# Cargo

Protection of cargo interests against loss or damage

The cargo insurer compensates cargo owner for loss/damage

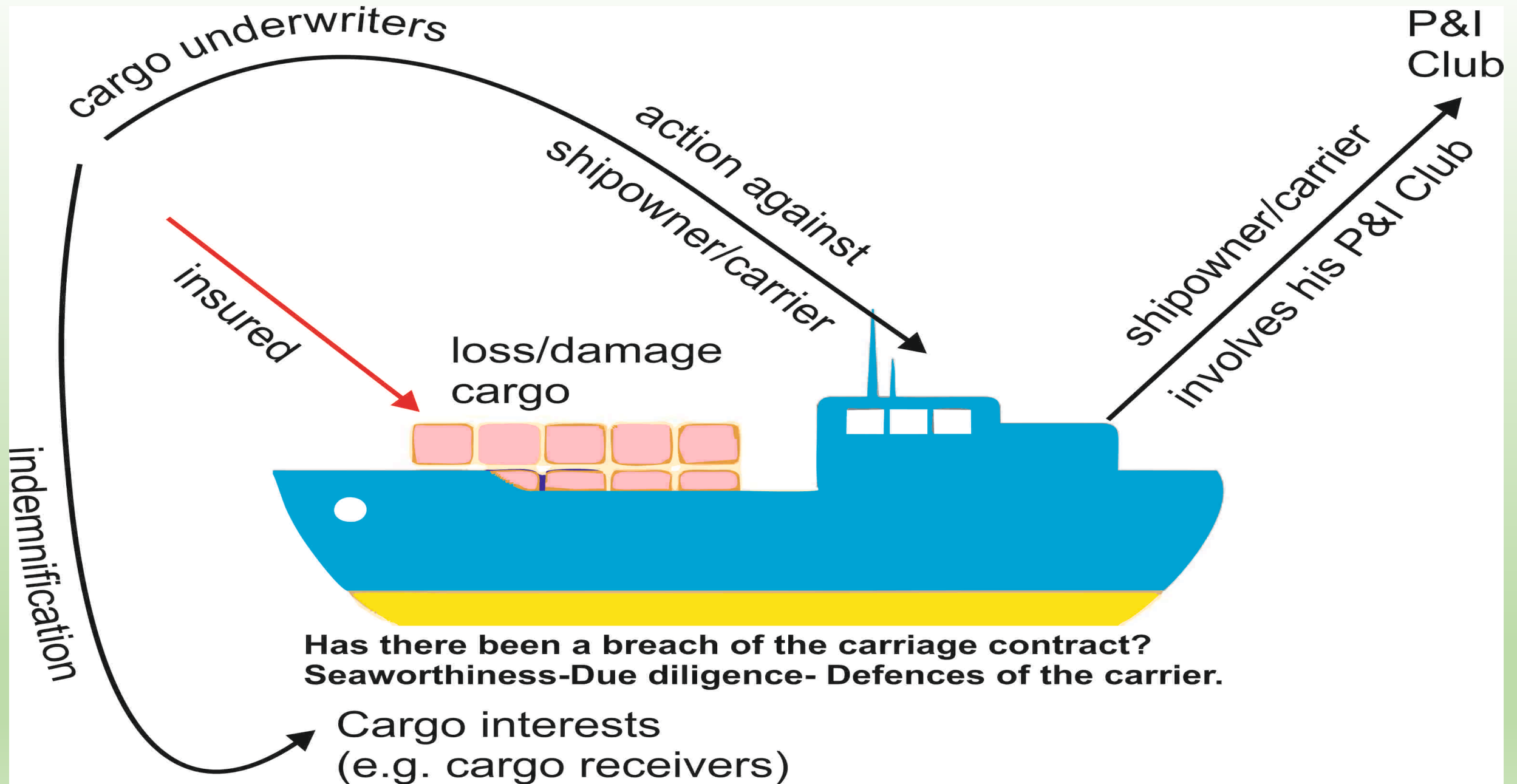
Then cargo insurers may bring proceedings against the carrier



# Cargo

Who is the cargo insurer?

- Companies (Company Market)
- Syndicates (Lloyd's of London)



# The rationale of the Hague and the Hague-Visby Rules

- ✓ The carrier is held to make the vessel seaworthy before and at the beginning of the voyage
- ✓ The ship must also be cargoworthy
- ✓ Due diligence of the carrier to make the vessel seaworthy enables the carrier to benefit from 17 defences
- ✓ If the carrier fails to benefit from the defences, it benefits from limited liability



## In practice insurers are:

- Lloyd's of London Syndicates
- Companies (Company market)
- Mutual associations of shipowners and charterers (P&I Clubs)
- Specialist insurers (e.g. covering war risks)



**More than one market:**

**London, Tokyo, Oslo,**

**New York...**

**Insurers insure and reinsure...**



**English law is based on the  
Marine Insurance Act (MIA) 1906,  
as amended by the Insurance Act 2015**

**New Act applies to contracts of insurance  
entered into from 12 August 2016**

**MIA1906 has been traditionally based on:**

**-Principle of utmost good faith**

**-Insurable interest**

**-Warranties**

**-Proximate cause**

**-Measure of indemnity**

## Recent developments notably include:

- Principle of utmost good faith being replaced by the duty of fair presentation of the risk
- Remedies in case of breaches
- Warranties reshaped



# Standard Clauses in Marine Insurance

How do they operate?

Examples:

- Institute Hull Clauses
- Institute Cargo Clauses
- Institute Coal Clauses, etc.

# Current trends

## Known risks and unknown risks...

- Natural catastrophes (tsunami, hurricanes, floods) and climate change
- Political instability (sanctions)
- Piracy
- Risks relating to cybersecurity
- Protectionism and legal constraints (e.g. economic crimes, corruption, money laundering, etc.)
- Autonomous shipping-related risks

# Interested in deepening further?

- ICS (2017) Marine Insurance
- Bennett H. (2006) The Law of Marine Insurance, 2<sup>nd</sup> edition, OUP
- Websites of:
  - P&I Clubs
  - Lloyd's of London
  - International Underwriting Association of London
  - Lloyd's Market Association
  - International Union of Marine Insurance (IUMI)

# Interested in deepening further?

- Allianz Global Corporate & Specialty Safety & Shipping Review 2019 (available on the internet)
- Lloyd's Annual Report 2018 – Sharing Risk to Create a Braver World (available on the internet)
- Global Marine Insurance Report 2018 (IUMI 2018 Cape Town, 16-19 September) (available on the internet)

*Thank you for your attention!*

