

THE CHARTERED INSURANCE INSTITUTE

P98

Diploma in Insurance

Unit P98 – Marine hull and associated liabilities

April 2014 examination

Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit P98 – Marine hull and associated liabilities

Instructions to candidates

Read the instructions below before answering any questions

Three hours are allowed for this paper which carries a total of 200 marks, as follows:

Part I	14 compulsory questions	140 marks
Part II	2 questions selected from 3	60 marks

- You should answer **all** questions in Part I and two out of the three questions in Part II.
- You are advised to spend no more than two hours on Part I.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show each step in any calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

PART I**Answer all questions in Part I****Note form is acceptable where this conveys all the necessary information**

1. (a) Explain briefly what freight, demurrage and defence (FD&D) insurance cover is and the cover it provides. (5)
- (b) (i) State who buys FD&D insurance. (2)
- (ii) Identify which organisations traditionally provide FD&D insurance. (2)
2. (a) List **ten** liabilities that a vessel may be exposed to. (10)
- (b) State who might provide insurance protection for these risks. (4)
3. (a) Outline the role of the International Association of Classification Societies. (2)
- (b) Explain the effect of a change of a vessel's classification society if the vessel is insured under the Institute Time Clauses – Hulls 1/10/83. (7)
4. The sloop 'Happy Wanderer' has been on a delivery voyage. On arrival the buyer has refused to accept delivery stating the vessel has not been constructed to the agreed standards. You are the insurance broker who arranged insurance for the original delivery voyage. Your client who built the yacht is now asking what cover can be offered to them for a return voyage to enable the vessel to be sold to another buyer.
 - (a) Explain the provisions of the Marine Insurance Act 1906 regarding insurable interest and whether any of the provisions would apply to the return voyage citing the Act where appropriate. (6)
 - (b) State what additional information an underwriter might need in order to provide a quotation for the return voyage. (4)

5. State what the Omnibus Rule is, to which claims it refers and how it operates. (5)
6. (a) Outline the role of a vessel's flag state. (5)
- (b) Explain the actions which should be taken by a flag state following a marine casualty. (5)
7. (a) Explain, giving reasons, the limitations on the purchase of insurance imposed on shipowners by the disbursements warranty under the Institute Times Clauses – Hulls 1/10/83. (5)
- (b) State which insurances the warranty allows the owner to purchase irrespective of amount. (4)
8. (a) State how the Marine Insurance Act 1906 defines an actual total loss (ATL). (4)
- (b) State how the Marine Insurance Act 1906 deals with a missing vessel that is believed to be an ATL. (3)
9. Your claims department has been advised of a claim to an old tanker. The owners are considering selling or scrapping the vessel in the next 12 months and asks what their position is if they do not repair the vessel. The vessel is insured under the Institute Time Clauses – Hulls 1/10/83.
- Explain what options the owner has, citing both the Marine Insurance Act 1906 and the provisions of the clauses. (10)
10. Explain how a member of the International Group collects its premiums and outline what actions it can take if it needs to raise more funds. (9)

Questions continue over the page

11. (a) (i) Define Salvage. (1)
- (ii) State the **three** elements required for pure salvage. (3)
- (b) Explain how the requirements of pure salvage are modified by the use of 'Lloyd's open form'. (5)
12. (a) Describe the characteristics of a roll-on, roll-off freight ferry. (5)
- (b) State which legislation would allow a shipowner to limit their liability for loss/damage to vehicles and cargo carried on a vessel that operates between Dover, UK and Calais, France. (2)
- (c) State the conditions that would have to apply for the legislation to be applicable. (4)
13. You are the lead underwriter for the container feedership 'Johnson Brothers'. The placing broker advises that the vessel has been reported as grounding on the approach to the Port of Liverpool and is believed to have suffered bottom and engine damage. The vessel is insured under Institute Time Clauses – Hulls 1/10/83.
- Making reference to the relevant provisions of the clause:
- (a) (i) Explain the actions you would expect the assured to take. (2)
- (ii) State who you would appoint to help you deal with the claim. (1)
- (iii) State what action you would take if no bottom damage was found. (2)
- (b) Explain the actions that should be taken by a surveyor appointed by insurers to assist in settling this claim. (9)

-
14. (a) State the underwriting statistics that a hull underwriter would keep.
- (b) State what statistics would be presented by a broker placing a fleet of vessels.
- (c) Calculate the credit balance earned by the owner as a percentage over three years, if the premium paid net absolute to underwriters is £1 million and paid claims are £375,000. The outstanding claims are £225,000.

(6)

(2)

Questions continue over the page

Part II

Answer TWO of the following THREE questions
Each question is worth 30 marks

- 15.** The general cargo ship 'St Jude' trades in European waters. The ship is insured under standard Institute Time Clauses – Hulls 1/10/83 and the International Navigating Conditions 1/11/03.

The ship's owners have been offered a large incentive to collect a cargo of specialised expedition equipment from the Port of Godthaab in Greenland. Whilst leaving Godthaab the vessel grounds on a hidden part of an iceberg. In order to become free the engines are overworked, causing damage to them and other machinery. The master orders some cargo to be jettisoned in order to lighten the ship so that the vessel may proceed to a port of refuge.

General average is declared and the owners make a claim against insurers for their contribution towards the general average.

- (a)**
- (i)** Define a warranty, citing the Marine Insurance Act 1906 where appropriate. **(4)**
 - (ii)** State the effect of a breach of warranty under the Act. **(6)**
 - (iii)** State when a breach is excused under the Act. **(2)**
- (b)** State whether the Institute Time Clauses – Hulls 1/10/83 permit a breach of warranty, the action insurers can take to preserve their position, and if this general average claim would be paid. **(6)**
- (c)** Explain, if a claim for general average were to be admitted, the procedure involved in the processes leading to settlement, outlining the actions that would be taken and stating who would take them. **(10)**
- (d)** State how the claim would be handled if the owners made a claim under the sue and labour section of the policy. **(2)**

16. The tanker 'Pedro Erickson' is on a yearly charter to operate as a shuttle tanker between a floating production storage and offloading unit (FPSO), a converted very large crude carrier (VLCC), moored in an oilfield in the Norwegian sector of the North Sea, and a crude oil terminal in Norway. The tanker's captain is currently in the UK on a training course about new electronic equipment which is being installed and the Chief Officer is currently in command.

During his first voyage in charge, the Chief Officer makes an error in navigation and collides with the FPSO. The FPSO suffers damage and a number of her crew are injured. The tanker has bow damage and the Chief Engineer is thrown across the engine room and breaks his arm. There is minor pollution.

The acting captain of the FPSO is unsure whether the vessel's mooring gear is damaged and decides to take her off station to be checked by divers.

The vessel is entered in a Norwegian Protection and Indemnity Club, which is a member of the International Group, and the hull insurance is arranged in London using the Institute Time Clauses - Hulls 1/10/83.

- (a) State which claims the hull insurers should pay and which claims the Norwegian Protection and Indemnity Club should pay. (12)
- (b) Explain briefly:
- (i) the position if the hull insurers refuse to pay a claim for collision as they allege the FPSO is a floating object; (4)
- (ii) the difference between a vessel and a fixed or floating object. (4)
- (c) The owners of the FPSO sue the tanker owners for loss of use. The tanker owner counter claims that there was no need to take the FPSO out of service.
- Explain what steps you would take to investigate the claim and what experts you would use to establish liability. (10)

Questions continue over the page

17. Dependable Shipping Ltd (Dependable) operates a fleet of seven feeder container vessels. They began business in 2007 as the Trustworthy Shipping Company (Trustworthy). Due to problems caused by the current world recession, Trustworthy was put into voluntary liquidation in 2011 by its owners, with Dependable taking over all the assets of Trustworthy, including the container vessels. Dependable re-employed the existing staff and directors of Trustworthy.

Dependable arranged a new insurance programme which used different brokers with different underwriters who were willing to offer more competitive premiums.

During 2010, Trustworthy had suffered a total loss. The loss was due to officer and crew negligence as they failed to accurately fix their position in a narrow channel and keep a proper watch. This resulted in the vessel stranding and subsequently becoming a total loss.

The brokers were not aware of claims made by Trustworthy for the vessel lost in 2010. The new underwriters only became aware of the 2010 total loss claim by Trustworthy when Dependable made a claim for a fire at sea on one of its vessels. The fire caused substantial damage to both the vessel and its cargo.

The underwriters for Dependable decline the claim on the grounds of non-disclosure of the 2010 claim by Trustworthy, arguing that it was a material fact that should have been disclosed to them. In response, Dependable put forward a counter argument that the activities of the former company were not relevant to them, and the sinking of the vessel was recorded in the Lloyd's casualty reports, thus making it common knowledge in the market.

- | | | |
|-----|---|------|
| (a) | State who was obliged to disclose information to whom relating to the risk. | (8) |
| (b) | Outline the nature of any information that had to be revealed to the underwriters. | (3) |
| (c) | Explain whether Dependable were correct in deciding not to reveal information relating to the sinking of the vessel owned by Trustworthy. | (10) |
| (d) | Outline the reasons why underwriters might decline the claim. | (2) |
| (e) | Explain how underwriters might react to the counter argument put forward by Dependable. | (7) |

