INSURANCE EXAM · IC-67

IC-67 Marine Insurance

Revision book

15	2	156
chapters	master tables	numbered sections

FREE SAMPLE: Chapter 1 of 15

CHAPTER 1

Marine Insurance Fundamentals

1.1 Branches
1.2 Cargo and affreightment
1.3 DSU and P&I
1.4 Need for marine insurance
1.5 History of Lloyd's
1.6 Lloyd's structure
1.7 World and Indian market
1.8 Marine Insurance Act, 1963
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MUST KNOW

1. **Five branches:** cargo, hull, DSU, marine liabilities, P&I.
2. Cargo cover = goods in transit by sea, air, rail, road, inland waterways, post parcels, couriers.
3. Transit must be under a contract of affreightment; consideration = freight.
4. DSU = lost profit + fixed costs (mainly loan interest); always with cargo cover.
5. P&I = mutual cover by clubs; members pay "calls", not premium.
6. Lloyd's = a market, not a company. Two parts: Market and Corporation.
7. Syndicate lasts 1 calendar year; accounts close after **3 years**.
8. Marine Insurance Act **1963** = U.K. Act **1906** copy; only Indian Act for one branch.
9. **Implied warranties:** seaworthiness (relaxed by ICC 1982, **2009**) and legality (cannot change).
10. Insurable interest needed only at the time of loss.

1.1 Branches

Branch	Covers
Marine cargo	Goods in transit (sea, air, rail, road, waterways, post, courier)
Marine hull	Hull and machinery of ships, yachts, barges, tugs; Builders' Risk (under construction)
Marine DSU	Lost profit + standing charges; with cargo cover on project materials
Marine liabilities	Charterers', Stevedores', Terminal Operators', Freight Forwarders', Ship Repairers'; Port Package (combo)
P&I	Mutual cover by P&I Clubs; cargo owners, third parties, crew, pollution, collision, wreck removal

1.2 Cargo and affreightment

- **Contract of affreightment:** transporter gives consignor a document of receipt + assurance of safe delivery.
- **Documents:** Bill of Lading, Airway Bill, Lorry Receipt, Railway Receipt.
- Consideration = freight payable.

1.3 DSU and P&I

- DSU pays profit that would have been earned + fixed costs if cargo loss delays the project.
- Interest on loans = biggest fixed cost.
- **P&I:** owner or charterer must be a club member; pays "calls".
- Company markets also give P&I, but with much smaller capacity.

> **TRAP**
> P&I = calls, not premium. Port Package = combo (assets + liabilities).

1.4 Need for marine insurance

- Lenders want hull or cargo policy as collateral; DSU for big projects.
- **INCOTERMS:** CIF (Cost, Insurance & Freight) and CIP (Carriage & Insurance Paid to): seller arranges insurance.
- **Customs (imports):** CIF value from FOB/CFR invoice + freight + insurance. No policy: flat notional **1-1.25%** added, so more duty.
- **General average / salvage:** vessel owner and salvor have a lien; cargo owner must give guarantee or cash deposit; settlement takes years.
- Insurer gives General Average Guarantee / Salvage Guarantee: funds freed.

1.5 History of Lloyd's

Year	Event
3000 B.C.	Need for cargo cover felt; bottomry and respondentia bonds
1689	Lloyd's Coffee House
1774	Society of Lloyd's formed; moved to Royal Exchange
1871	First Lloyd's Act: legal status
1911	Lloyd's Act: aims of the society
1982	Lloyd's Act: rules and structure; Council of Lloyd's manages

1.6 Lloyd's structure

- Lloyd's is a market where members join in syndicates.
- **Market:** members (Names = individuals, or corporations) = risk-takers.
- **Managing Agents:** form syndicates, bring capacity, hire underwriters, run them.
- **Syndicate:** 1 calendar year, then disbanded and re-formed; accounts closed after **3 years**; unpaid claims reinsured by premium to a syndicate.
- **Corporation:** standards, member capital, ratings, reporting, exposure and claims management, global licences.
- All business only through Lloyd's Brokers. Lloyd's Agents (ports) report shipping movements and casualties.
- Corporation funded by members' subscriptions.
- U.K. regulators of Lloyd's: PRA and FCA (replaced the FSA in **2013**).

> **TRAP**
> Lloyd's is not a company.

1.7 World and Indian market

- **Traditional:** UK, USA, Norway, Germany, France. Newer: Singapore, South Korea, Japan.
- London = largest marine capacity (Lloyd's + company markets).
- **India:** strong in cargo; hull and liabilities by few insurers with strong reinsurance.
- **Old tariff era:** cargo de-tariffed **1 Apr 1994**, hull **1 Apr 2005** (history). Insuring clauses stay international.

> **TODAY'S RULE**
>
> Regulator is IRDAI. Rates are set by insurers and filed with IRDAI; TAC is history.

1.8 Marine Insurance Act, 1963

- **Other laws:** Insurance Act 1938, Insurance Rules 1939, Stamp Act 1899, exchange control rules.
- Follows English law; same as U.K. MIA **1906** (codified case law).
- **Features:** law + practice; practice counts where law is silent; many sections flexible ("unless otherwise stated on the face of the policy"); usage can alter implied conditions.
- **Implied warranties:** seaworthiness (absolute; relaxed by ICC 1982, further by ICC **2009**) and legality of object (cannot be changed: public policy).
- Insurable interest needed only at time of loss.
- **Carriers' laws now:** Carriage of Goods by Sea Act **2025** (Hague-Visby) and Bills of Lading Act 2025, both in force **10 Sep 2025**.
- **Topics:** definition of marine, insurable interest, insurable value, disclosure, policy, construction, contribution, warranties, voyage, assignment, premium, statutory exclusions, losses, abandonment, measure of indemnity, subrogation, return of premium.

> **TRAP**
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> **Fire:** interest at start + loss. Marine: at loss only.

1.9 Quick recall

- Act that codifies marine law = Marine Insurance Act **1963**.
- Good faith + insurable interest + indemnity = principles of insurance.
- Two parts of Lloyd's = Corporation and Market.