Chapter 7: Cargo Transportation Insurance

Parties involved in an insurance practice

- ***the insurant / insured/assured***
  - The party that procures insurance
  - Can be the exporter or importer depending on the Incoterms adopted in the transaction
- ***the insurer***
  - The party undertaking to indemnify the insurant against losses or damages
  - Can be the insurance company / underwriter
- ***the claimant***
  - The insurant may not necessarily be the claimant
  - Depending on: who has the insurable interest of the goods when the goods are damaged or lost

Cargo Transportation Insurance

Marine Cargo Insurance

- “the insurant enters with an insurance company and/or an underwriter into a **contract of insurance** in which the insurant undertakes the payment of an insurance premium and the insurer will, according to the terms indicated in the insurance contract, indemnify the insurant of any loss that occurs within the scope of coverage” .

Contents

- The basic principle of insurance
- Scope of Cargo Insurance
- Terms and coverage of Ocean Marine Cargo Insurance in China (CIC)
- Marine Cargo Insurance of the Institute of London Underwriters (ICC)
- Cargo Insurance Practice in Import and Export Business
- Insurance Terms in Sales Contract

1. The basic principle of insurance

- The Insurable Interest Principle
- The Utmost Good Faith Principle
- The Indemnity Principle
- The Proximate Principle
- The Subrogation Principle
- The Share Principle

1.1 The insurable interest principle

- **Definition:** The **financial interest** of a person in the subject matter insured
- **Forms of insurable interest:**
  - **Ownership of the goods**
  - Charge of insurance
  - Freight
- **A policy without insurable interest is invalid**
- **Proof of insurable interest** is required at the time of making a claim, not at the time of effecting an insurance

1.2 The Utmost Good Faith Principle (Bona Fide Principle)

- Definition
  - Both parties be faithful and honest in entering into the insurance contract
- Marine Insurance Act 1906:
  - If the Utmost Good Faith Principle is not observed by either party, the other party may avoid the contract

1.3 The Indemnity Principle

- **Definition**
  - In the event of loss of or damage to the subject matter resulting from an insured peril, the insurer shall compensate the claimant **exactly** what the latter has lost in the occurrence of the peril.
- **Means of effecting indemnity**
  - **by paying an amount of money equal to the value of the goods lost or damaged**
- **Extent of indemnity:** total indemnification be limited to
  - **the insurance amount: 110% of the insured value**
  - **the actual loss suffered**
  - **the insurable interest of the claimant**

1.4 The Proximate Cause Principle

- **About the Proximate Cause Principle**
  - employed in the judgment of causation between accidents and losses
  - refers to the major and/or effective (not necessary the first or the last, but the **dominant**) cause that has led to the accident.
  - The insurer shall only be responsible for the loss resulted from the dominant cause.

1.4 The Proximate Cause Principle

- **How to decide the proximate cause**
  - **In case of only one cause**
    - within insurance coverage: the insurer shall indemnify
    - beyond insurance coverage: the insurer shall not be responsible for the loss
  - **In case of two or more than two causes**
    - If all causes are within the insurance coverage, the insurer hold responsible for the loss.

1.4 The Proximate Cause Principle

- **How to decide the proximate cause**
  - If the former cause is within the scope of insurance coverage and the latter one is out of the scope of insurance coverage, provided there is a direct chain of causation between them, the former cause is regarded as the proximate cause and the insurer shall be held responsible for the loss or damage.
  - If the former cause is within the exclusion of the coverage and there is a direct chain of causation between the former and latter cause, the proximate cause is considered out of the scope of insurance coverage and the insurer need not be held responsible for the loss or damage.

1.5 The Subrogation Principle

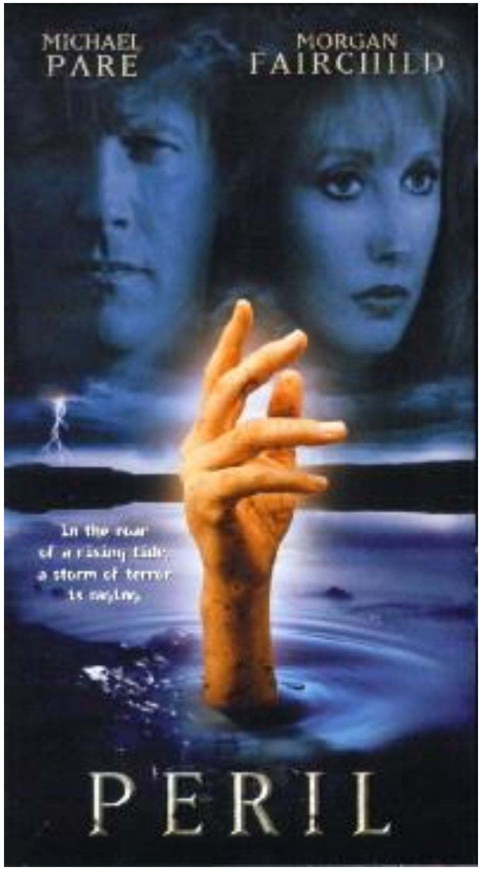
- **Definition**
  - When the loss of the property insured is caused by **a third party**, the insurer is automatically entitled to compensation from the third party after indemnification has been made to the insurant.
- The right of subrogation is exercised either in the name of the insurer or that of the insured.

1.6 The Share Principle

- **Definition**
  - Under the circumstance of double insurance, all the insurers shall jointly bear the loss on the subject matter and share the loss according to their respective insurance proportion.
- **Double insurance**
  - the insured has the risks covered by two different insurance companies upon the identical interest in the identical subject matter.
- **Each insurer is normally only liable**
  - A share in proportion to his respective insurance amount in the total amount of double insurance.

2. Scope of Cargo Insurance

- Perils
- Losses
- Charges



Perils

Perils	Perils of the sea	Natural calamities
		Fortuitous accidents
	Extraneous risks	General extraneous risks
		Special extraneous risks

Ocean Losses

Ocean Losses	**Total Loss**	Actual Total Loss
		Constructive Total Loss
	Partial Loss	General Average
		Particular Average

Maritime Charges

Maritime Charges	**Sue and labor expenses**
	Salvage charges

2.1 Perils

- **Refer to risks which occur at sea, or at the place where the ocean and land, or the ocean and the inland river, or the ocean and the lighter are connected.**

  - Perils of the Sea
  - Extraneous Risks

2.1.1 General Perils of the Sea

- Natural Calamities
  - vile weather
  - thunder
  - Lighting
  - Tsunami
  - earthquake
  - flood, etc.
- Fortuitous Accidents
  - Grounded
  - Stranded
  - collision with floating ice or other objects
  - fire
  - explosion

Are caused by the
from the changes

Include accidents resulting from unexpected causes

1.1.2 Extraneous Risks

- **General Extraneous Risks**
  - Theft, Pilferage
  - Contamination
  - Leakage
  - Breakage
  - Sweating and/or heating
  - Taint of Odour
  - Rusting
  - Hook Damage
  - Fresh and/or Rain Water Damage
  - Short-delivery and Non-delivery
  - Shortage in Weight
  - Clashing
- **Special Extraneous Risks**
  - War
  - Strike
  - Failure to delivery
  - Rejection
  - on deck
  - import duty

Perils

<table>
<tr><td rowspan="4">Perils</td><td rowspan="2">Perils of the sea</td><td>Natural calamities</td></tr>
<tr><td>Fortuitous accidents</td></tr>
<tr><td rowspan="2">Extraneous risks</td><td>General extraneous risks</td></tr>
<tr><td>Special extraneous risks</td></tr>
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2.2 Losses

- Marine Losses
- Maritime Charges
(Expenses sustained)

2.2.1 Marine Losses

- **Total Loss:** **loss of the entire value of the subject matter**
- **Partial Loss:** **A loss that does not completely destroy the insured property and the value of the loss is less than all the values insured.**

Total loss

a)Actual Total Loss : refers to that the whole consignment insured is totally lost in the course of transit or is so damaged to the extent that it is without its original shape and validity or it can no longer be in the possession of the insured.

b)Constructive Total Loss: refers to the loss where an actual total loss appears to be unavoidable or the cost to be incurred in recovering or reconditioning the goods together with the forwarding cost to the named destination would exceed their value on arrival.

Partial loss

a) General Average
b) Particular Average

Partial loss

a) General Average

- refers to sacrifices voluntarily made and extraordinary expenses incurred to rescue a ship and its cargo from impeding danger or for the common safety under fortuitous circumstance while it is at sea or at anchor in a port.

General Average

Conditions of General Average

① The risk must be real and threaten the safety of the ship and the cargoes.

② The sacrifice of general average must be a willing and intentional action. Losses shall be the direct result of the general average.

③ The sacrifice of general average and the expenses outlaid must be reasonable.

General Average

Conditions of General Average

④ The purpose of the sacrifice and expenses incurred is only restricted to the general safety of the vessel and cargoes.

⑤ G.A. contribution shall be made by the three parties in proportion to the final value saved.

⑥ The actions of the ship's master shall be successful in saving the voyage。

General average

- **Governing Rule**
  - the International General Average Rules 2004 (also referred to as the *York-Antwerp Rules 2004)*.

Partial loss

b) Particular Average

- Means that a particular cargo is damaged by any cause and the degree of damage does not reach a total loss, i.e., only a partial loss, which shall be borne by the owner of this individual consignment.

Differences between GA and PA

① Causes

- PA is usually caused directly by sea perils,
- GA is caused by intentional measures taken to save the common interest.

② Indemnification

- PA is often borne by the party whose cargo is damaged
- GA should be proportionally contributed among all parties benefited from the intentional measures.

Ocean Losses

Ocean Losses	Total Loss	Actual Total Loss
		Constructive Total Loss
	Partial Loss	General Average
		Particular Average

2.2.2 Maritime Charges

a) Sue and labour charges

b) Salvage charges

Maritime Charges

a) Sue and Labour Charges

- When the insured cargo suffers natural calamities or fortuitous accidents within the scope of insurance cover, the insured or his agent or any employees pays the expenses caused in saving the insured cargo in order to prevent the losses from further expanding.
- These charges shall be covered by the insurer.

Maritime Charges

b) Salvage Charges

- When the insured cargo suffers natural calamities or fortuitous accidents within the scope of insurance cover, the third party who has no contracted relations with the insured and the insurer salvages the cargo successfully. According to the relative laws existing in the world, the insurer shall pay to the salvor.
- Principle: “no cure – no pay”.

Cargo Insurance Case study

- A vessel is on fire during the shipping and the fire spreads into the engine room. For the sake of the common security, the captain issues order to infuse the water to extinguish the fire. Although the fire is put out, the vessel is damaged and can't continue to sail. Hence the captain decides to employ a tug to tow the damaged vessel to the nearby port . After repair the vessel sails again to the port of destination. Later according to the investigation, the total loss caused is as following: ① 800 cartons of goods were destroyed by the fire; ② 500 cartons of goods of were damaged because of infusing the water to extinguish fire; ③ the engine and parts of decks were burnt badly; ④ Tug boat expenses; ⑤ the fuel that additionally increased. ⑥wages of the crew and captain that additionally increased. See from the above-mentioned various losses, which kind of losses they belong to respectively? Please state your reason.

3. China Insurance Clause（CIC）

- Insurance Coverage
- Exclusion
- Commencement and Termination of Insurance Duty

Insurance Coverage

Basic Risks	**FPA**
	WPA/WA
	AR
Additional Risks	**General Additional Risks**
	Special additional Risks

1. Insurance Coverage

① Basic Risks

- Also called main insurance which may be underwritten independently.
  - a) Free from Particular Average (F.P.A.)
  - b) With Particular Average (W.P.A. or W.A.)
  - c) All Risks

1. Insurance Coverage

a) Free from Particular Average (F.P.A.)

① Actual total loss or constructive total loss of the whole consignment hereby insured caused in the course of transit by natural calamities, such as vile weather, thunder etc.

1. Insurance Coverage

a) Free from Particular Average (F.P.A.)

② Total or partial loss caused by fortuitous accidents, such as the carrying vessel being grounded, stranded, sunk, etc.

1. Insurance Coverage

a) Free from Particular Average (F.P.A.)

③ Partial loss caused by vile weather, lightning and/or Tsunami, etc. where the conveyance has been grounded, stranded, sunk or burnt, irrespective of whether the event or events take place before or after such accidents.

1. Insurance Coverage

a) Free from Particular Average (F.P.A.)

④ Total or partial loss consequent on falling of entire package or packages into sea during the process of loading, unloading or transshipment.

1. Insurance Coverage

a) Free from Particular Average (F.P.A.)

⑤ Reasonable expenses the insured makes for the salvage of the goods insured, and for averting or minimizing the losses, provided the expenses do not exceed the insured amount.

1. Insurance Coverage

a) Free from Particular Average (F.P.A.)

⑥ Expenses incurred by discharge of the insured cargoes at a port of distress following a sea peril as well as special charges arising from loading, warehousing at an intermediate port of call or refuge

1. Insurance Coverage

a) Free from Particular Average (F.P.A.)

⑦ Sacrifice in and contribution to general average, and salvage charges

⑧ Such proportion of losses sustained by the ship-owners as is to be reimbursed by the cargo owner under the contract of Affreightment "Both to blame collision" clause

1. Insurance Coverage

b) With Particular Average (W.P.A. or W.A.)

- It covers partial loss due to vile weather, lightning, tsunami, earthquake and/or flood as well as the risks covered under F.P.A. condition as mentioned above.

1. Insurance Coverage

c) All Risks

- Aside from the risks covered under the F.P.A. and W.A. conditions as above, this insurance also covers all risks of losses or damage to the insured goods whether partial or total, arising from external causes in the course of transit.

- A.R.
  - W.P.
    - F.P.A.
      1. Total loss
         - Actual total loss
         - Constructive total loss

         due to
         - a. natural calamities
         - b. fortuitous accidents
      2. Partial loss due to
         - a. fortuitous accidents
         - b. natural calamities, where the conveyance being grounded, stranded, sunk or burnt before or after the fortuitous accident
      3. Total or partial loss caused by accidents and consequent on falling of entire package during loading, unloading or transshipment
      4. Reasonable expenses the insured makes for the salvage of the goods insured, and for averting or minimizing the losses
      5. Loss due to discharge of the insured goods at a port of distress following a sea peril as well as special charges arising from loading, warehousing and forwarding of the goods at an intermediate port of call or refuge
      6. Sacrifice in and contribution to salvage charges
      7. Loss due to “Both to Blame Collision” Clause
    8. Partial loss caused directly by natural calamities
  9. Loss or damage due to external causes including general extraneous risks, excluding special extraneous risks and exclusions

Figure 6.4 Basic Coverage of C.I.C.

1. Insurance Coverage

② Additional Risks

- Can not be covered independently, they shall be underwritten depending on one kind of the basic risks.
  a) General additional risks
  b) Special additional risks

② Additional Risks

a) General additional risks

① Theft, Pilferage and Non-delivery, (T.P.N.D)

② Fresh Water and/or Rain Damage

③ Risk of Shortage in Weight

④ Risk of Leakage

⑤ Risk of Intermixture and Contamination

② Additional Risks

a) General additional risks

⑥ Risk of clash & breakage

⑦ Risk of Odour

⑧ Sweating and Heating Risk

⑨ Hook Damage Risk

⑩ Breakage of Packing Risk

11 Risk of Rust

② Additional Risks

b) Special Additional Risks

① Failure to Deliver Risk

② Import Duty Risk

③ On Deck Risk

④ Rejection Risk

⑤ Aflatoxin Risk

⑥ Strike, riot and civil commotion (SRCC)

⑦ War Risk

B. Marine Insurance Clauses

2. Exclusions

- Refers to losses and expenses for which the insurance company declares clearly not to be responsible.

B. Marine Insurance Clauses

- Exclusions usu. Include:
  - ① Loss or damage caused by intentional act or fault of the insured
  - ② Loss or damage due to the responsibility of the consignor
  - ③ Inferior quality or shortage in quantity before the commencement of the insurance duty

B. Marine Insurance Clauses

- Exclusions usu. Include:
  - ④ Natural loss, inherent vice or nature of the insured goods ;
  - ⑤ Loss of the market price of the insured goods
  - ⑥ Loss due to delay in transportation and any expenses arising therefrom.

B. Marine Insurance Clauses

3. Commencement and Termination of Insurance Duty

① Basic Insurance

- "W/W" clause: The clause in the Cargo Policy that defines when coverage commences and terminates.

B. Marine Insurance Clauses

- Warehouse to warehouse clause
  - It is the intent of the policy to attach at the time the goods first moved **in the warehouse** or at the place of storage (at the place named in the contract of insurance) for the purpose of the immediate **loading into or onto the carrying vehicle** or other conveyance , and to continue while the goods are in due course of transit until on completion of **unloading from the carrying vehicle or other conveyance in or at the final warehouse** or place of storage at the destination named in the contract of insurance.

Case study

- An African seller signed a CIF contract exporting goods to an American buyer. The seller insured the goods against ICC(A) at the request of the buyer and transferred the insurance policy and the B/L to the buyer afterwards. In transit form the seller's warehouse to the port of shipment, the goods suffered losses which were within the insurance coverage. When the buyer asked the insurer for compensation with the insurance policy, the insurer refused to make compensation.
- Please comment on the case.

3. Commencement and Termination of Insurance Duty

- "W/W" clause:
  - An overriding time limit of sixty days after the completion of discharge of the insured goods from the seagoing vessel at the final port of discharge.

3. Commencement and Termination of Insurance Duty

② Marine War Insurance

- loaded on board the ship or lighter at the port of shipment named in the policy ⟺ discharged at the port of destination named in the policy

3. Commencement and Termination of Insurance Duty 保险责任的起讫

② Marine War Insurance

- If the cargoes are not discharged from the ship or lighter, then the time of insurance duty shall be limited to 15 days counting from the midnight of the day when the vessel arrives at the port of destination.

4. London Institute Cargo Clauses (ICC)

- Institute Cargo Clauses (ICC)
  - ① Institute Cargo Clause A ［ICC（A）］
  - ② Institute Cargo Clause B ［ICC（B）］
  - ③ Institute Cargo Clause C［ICC（C）］
  - ④ Institute War Clause-Cargo (IWCC)
  - ⑤ Institute Strikes Clause-Cargo (ISCC)
  - ⑥ Malicious Damage Clause

Coverage of marine cargo insurance of ICC

- ICC (A/B/C) have independent and complete structure and can be covered separately
- Institute War/Strike Clause also have independent and complete structure, but can be covered separately only after agreement from the insurer.
- Malicious Damage Clauses is an additional coverage and can not be covered **independently.**

4. Institute Cargo Clauses (ICC)

① Institute Cargo Clause A ［ICC（A）］

- Method: "all risks except exclusions"

4. Institute Cargo Clauses (ICC)

- Exclusions
  - ① General Exclusions
    - ✓ Loss or damage due to willful misconduct of the insured
    - ✓ Natural leakage of the subject matter, natural wear and tear, or wastage of the subject matter
    - ✓ Insufficient or improper packing
    - ✓ Delay

C. *Institute Cargo Clauses (ICC)*

- Exclusions
  - ① General Exclusions
    - ✓ Inherent vice of the subject matter
    - ✓ Insolvency of the owner of the ship, the carrier or the charterer
    - ✓ Nuclear or atomic weapons

C. Institute Cargo Clauses (ICC)

- Exclusions
  - ② Unseaworthiness and unfitness of the carrying vessel or lighter, including the containers
  - ③ War, capture, hostile behavior, distraint and conventional weapons
  - ④ Strike, terrorists

C. Institute Cargo Clauses

② Institute Cargo Clause B ［ICC（B）］

1. Fire, explosion
2. Ship or lighter colliding with rocks , running aground , sunk or capsized
3. Conveyance overturned or derailed
4. Ship, lighter or other conveyance colliding with any external object excluding water

4. Institute Cargo Clauses (ICC)

② Institute Cargo Clause B ［ICC（B）］

5. Loss or damage due to unloading at the port of refuge
6. Loss of damage due to earthquake, eruption of volcano, lightning or thunder
7. Sacrifice in general average
8. Loss of the subject matter due to jettison and washing overboard

C. Institute Cargo Clauses (ICC)

② Institute Cargo Clause B［ICC（B）］

9. Loss of the subject matter insured due to water entering the ship, lighter, conveyance, container or storage place
10. Total loss caused by falling of the entire package or packages into sea during the processes of loading and unloading.

C. *Institute Cargo Clauses (ICC)*

② Institute Cargo Clause B ［ICC（B）］

- Exclusions are those mentioned in clause A
- The following two are not included:

a) Piracy

b) Malicious damage

C. Institute Cargo Clauses (ICC) 协会货物条款

③ Institute Cargo Clause C ［ICC（C）］

- Only covers "major casualties"
- Exclusions are the same as those in clause B

Institute Cargo Clause C

- Comparing with clause B, it **excludes** the following risks:
  - Loss or damage due to earthquake, eruption of volcano, lightning or thunder.
  - Falling of the goods into sea during the processes of loading and unloading, water entering the ship, lighter, conveyance, container, storage place, etc.

- I.C.C. (A)
  - I.C.C. (B)
    - I.C.C. (C)
      1. fire or explosion
      2. vessel or craft being stranded, grounded, sunk or capsized
      3. overturning or derailment of land conveyance
      4. collision or contact of vessel, craft or conveyance with any external object other than water
      5. discharge of cargo at a port of distress
      6. general average sacrifice
      7. jettison
    8. earthquake, volcanic eruption or lightning
    9. washing overboard
    10. entry of sea, lake or river water into vessel, craft, conveyance, container, liftvan or place of storage
    11. total loss of any package lost overboard or dropped whilst loading onto, unloading from vessel or craft
  12. all risks of loss of or damage to the subject-matter insured
  13. general average and salvage charges
  14. "Both to Blame Collision"

Figure 6.5 Basic Coverage of I.C.C.

D. Marine Insurance Business and Insurance Clauses in the Contract

1. **Choosing Insurance Coverage**
2. **Determining insurance Amount and Calculating Insurance Premium**
3. **Taking out Insurance**
4. **Insurance Clauses in the Contract**

D. Marine Insurance Business and Insurance Clauses in the Contract

1. Choosing Insurance Coverage

① Quality and characteristic of the goods

② Conveyance and line

③ Changes of international political and economic situations

④ Regularity of damage

⑤ Package conditions of the cargo

D. Marine Insurance Business and Insurance Clauses in the Contract

2. Determining insurance Amount and Calculating Insurance Premium

- The **insurance amount** is the highest compensation amount undertaken by the insurer, and it is also the foundation for calculating the insurance premium.
- The insurance amount may be marked up by a certain percentage on the basis of the CIF value.

② Determining insurance Amount and Calculating Insurance Premium

- The Insurance Amount under CIF Includes:
  - ① Invoice value:
    - ✓ **C**ost of the goods + **I**nsurance premium + amount of **F**reight
  - ② Markup percentage: usu. **10%** of the CIF value
    - ✓ The operating expenses and profit in expectancy by the insured

② *Determining insurance Amount and Calculating Insurance Premium*

- The Formula of Insurance Amount under CIF Terms:
  - Insurance amount

    = CIF price x (1+ markup percentage)

② *Determining insurance Amount and Calculating Insurance Premium*

- **The insurance premium, referring to the sum of money paid by the insured, is the basic proceeds earned by the insurer.**
- **Premium is usu. calculated according to two kinds of rates:**

  ① general premium rate

  ② named cargo premium rate

② *Determining insurance Amount and Calculating Insurance Premium*

- The Formula for Calculating the Premium under CIF Terms:
  - Premium

    = CIF price x (1+ markup percentage) x premium rate

② Determining insurance Amount and Calculating Insurance Premium

- CFR Price ⟹ CIF Price:
  - CIF price

$$= \frac{\text{CFR price}}{1 - (\text{premium rate x } 110\%)}$$

1 + markup percentage

② Determining insurance Amount and Calculating Insurance Premium

Calculation

- A Chinese company offered to a British counterpart at USD500.00 per case FOB Shanghai. The British importer asked the exporter to offer a CIF price. Suppose the freight is USD50 per case and premium rate is 0.5%, what would the new offer be?

D. Marine Insurance Business in China and Insurance Clauses in the Contract

3. Taking out Insurance

- Difference between CIF and FOB, CFR
  - " W/W " Clause
- Taking out insurance with the insurer is a contracted legal action of the insured.
  - " Application for Marine Insurance"

3. Taking out Insurance

- Attention under " Application for Marine Insurance"

① Principle of utmost good faith

② Contents in conformity with contract and L/C

③ No liability for any willful fault or negligence of the insured

④ The venture must be legal

⑤ The insurance amount, coverage, the name, quantity, packing of the insured good, the name of the vessel, sailing date, etc. must be filled in correctly.

D. Marine Insurance Business in China and Insurance Clauses in the Contract

4. Insurance Clauses

- "Insurance to be effected by the buyer"
- "Insurance to be effected by the seller on behalf of the buyer for 110% of the invoice value against FPA (WPA or All risks. Premium to be for the buyer's account. "

E. Forms of Marine Insurance Contract

- Five Kinds of Forms:
  1. Insurance Policy
  2. Insurance Certificate
  3. Open Policy
  4. Combined Certificate
  5. Endorsement

E. Forms of Marine Insurance Contract

1. Insurance Policy

- Names and addresses of the insured and the insurer
- Subject matter insured
- Kinds of risks and accidents covered
- Commencement date of insurance as well as time limit
- Insurance amount
- Insurance premium
- Date and place of taking out the policy, etc.

E. Forms of Marine Insurance Contract

1. Insurance Policy

   - Rights and obligations of the two parties on the back of the insurance policy.

E. Forms of Marine Insurance Contract

2. Insurance Certificate

- A kind of simplified insurance policy
- Rights and obligations of the two parties are omitted.
- Same validity as the insurance policy

E. Forms of Marine Insurance Contract

3. Open policy or open cover

- provide coverage for all goods shipped by the insured during a given period (eg. 6-12 months) while the policy is in effect.
- Include scope of goods to be insured, insurance coverage, highest sum insured, premium payment term stipulated
- Once the goods within the scope of open cover are shipped, the open cover becomes effective automatically
- Notify the insurer and exchange for Insurance Certificate later

E. Forms of Marine Insurance Contract

4. Combined Certificate

- Presently used only in Hongkong, Macao, and areas in Singapore and Malaysia
- The insurance company adds the coverage, insurance amount and serial number of insurance on the commercial invoice
- A certificate which combines the invoice with the insurance policy
- The simplest insurance certificate in use.

E. Forms of Marine Insurance Contract

5. Endorsement

- After insurance has been taken out, if the insured wants to replenish or change the contents of the policy, he may apply to the company for the same. After agreement by the company, another certificate which indicates the relative amendment will be issued. This certificate is called endorsement.

F. Insurance Claim

- **In case the insured goods suffered losses within the scope of insurance cover, the insured can claim for indemnity from the insurer.**

1. Formalities for claim
2. Points should be paid attention to when filing claims

F. Insurance Claim

1. Formalities for Claim

① Advice and inspection of goods damaged

② Evidence of lodging a claim

③ Protecting the interests of the insurer

1. Formalities for Claim

① Advice and inspection of goods damaged

- The insured advises the insurer of the loss or damage is a necessary procedure of application for indemnity.

  a) Inspector agent

  b) Satisfaction agent

1. Formalities for Claim

② Evidence of lodging a claim

a) The inspection declaration of loss or damage

b) The insurance policy or insurance certification

c) The invoice, B/L, packing list or weight memo

d) The sea protest

1. Formalities for Claim

d) The sea protest

- The true record of vile weather, fortuitous accidents or other perils during the voyage

1. Formalities for Claim

③ Protecting the interests of the insurer

- Any person who files a claim should have the insurance interest
- Loss of or damage to the subject matter shall be the direct result of the perils within the scope of the insurance cover.

F. Insurance Claim

2. Points should be paid attention to when filing claims
   a) As to fragile goods , two ways to stipulate the method for compensation
   b) Constructive Total Loss

F. Insurance Claim 保险索赔

a) As to fragile goods, two ways to stipulate the method for compensation

1. Franchise
2. Irrespective of Percentage

F. Insurance Claim

1. Franchise

- For goods insured against "PA" or partial loss from perils of the sea and subject to breaking, leaking and lightening , the insurer is free from a certain percentage of compensation.
- Relative franchise and Deductible franchise
  - ✓ Both are free from the compensation if the amount of loss does not exceed the franchise.

1. Franchise

- Relative franchise and Deductible franchise
  - Relative franchise: in case the amount of loss exceeds the franchise, the insurer will not deduct the franchise and compensate the total loss.
  - Deductible franchise: the insurer will deduct the franchise and only compensate the exceeding part.

F. Insurance Claim

2. Irrespective of Percentage （I.O.P.)
   - The insurance company will compensate in case of breakage irrespective of percentage

Illustration of franchise

- Suppose a shipment is insured for USD10,000, the franchise rate is 3%, the damage to or loss of the goods is up to 1%,3% or 5% of the total amount respectively

Damage /Loss	Compensation		
	Relative franchise 3%	Deductible franchise 3%	I.O.P.
USD100 = 1%	Nil	Nil	USD100
USD300 = 3%	USD300	Nil	USD300
USD500 = 5%	USD500	USD200	USD500

2. Points should be paid attention to when filing claims

b) Constructive Total Loss

- The insured may submit to the insurer the notice of abandonment, and pass all the rights and interests of the damaged goods to the insurer and ask him to compensate on the basis of the constructive total loss.

Case Study

- Suppose one import and export company entered into a contract for exporting beans on CIF terms, the shipment should be made at the port of Tianjin. The company applied to People's Insurance Company for an adequate insurance cover of All Risks. And the insurance amount is CIF*110%. Then the goods sustained serious damage caused by sea tide when the goods was for shipment at the port after leaving the consignor's warehouse. And constructive total loss was confirmed by the designated surveying agent as to the goods.
- Please tell whether People's Insurance Company should answer this claim? And why?

Exercise

- 2. Suppose we make an offer on CIF terms, is it suitable to cover the goods under the following coverage? If not, please give your suggestion and present your reason： All risks；non-delivery； Taint of Odour；With Average and Breakage.

The END