UNIT 12 CARGO INSURANCE

Structure

12.0 OBJECTIVES

After studying this unit, you should be able to:

- describe the need of cargo insurance in international business
- explain various kinds of perils covered by the cargo insurance policy
- explain various types of losses
- explain coverage under different policies
- describe the types of policies
- explain the procedures and documents for filing insurance claims.

12.1 INTRODUCTION

Cargo insurance, commonly known as marine insurance, occupies an important position in international business. It provides protection against unanticipated business to participate more freely in the business and expands the scope of their operations. Cargo insurance protects the traders and others against the risk of loss or damage to goods in transit from the seller to the buyer. A trader engaged in international business can protect his interests by taking an appropriate insurance policy from an insurance company. In this unit, you will learn the need for cargo insurance, various kinds of perils and types of losses. You will also be acquainted with the documentation procedure for filing insurance claims.

12.2 NEED FOR CARGO INSURANCE

Why should the goods be insured? There are two reasons for securing the insurance cover. The first reason concerns the legal dimension of limited liability of the carriers and other intermediaries. The second reason concerns commercial considerations. Let us discuss them.

12.2.1 Legal Dimension

When the goods are in transit from the exporter to the importer, they are, at different stages, in the custody of different agencies and authorities including the clearing and forwarding agents, carriers, port and customs authorities, etc. If there is any loss or damage to the goods, while in their custody, the concerned intermediary may be held liable to pay damages to the cargo owners.

The nature and extent of liabilities of various intermediaries have been defined in the respective laws enacted by the government all over the world. According to these laws, the intermediaries cannot be held liable for loss to the cargo, if it was caused by reasons or events beyond their control. For example, if the loss is due to natural disasters or war or strike, the intermediaries will not be liable to pay for the loss. Further, if the loss has occurred even after the concerned intermediary has exercised reasonable care in keeping the goods, it is legally exempted from the liability. In such situation, the cargo owners who suffer the loss cannot recover it from the intermediaries and they have no other option but to obtain appropriate insurance cover. The laws also state that where the carriers or other intermediaries are liable for loss or damage, the maximum amount of recover is limited to the sum stipulated in the respective laws.

12.2.2 Commercial Dimension

From the point of view of an exporter, a transaction is complete as soon as the importer either pays for the Bill of Exchange on its presentation or he undertakes to make payment at a future date by accepting the Bill. Sometimes even before the Bill of Exchange is presented to the importer, he gets to know about the loss of goods in transit and does not accept the Bill when presented. In such a situation, the exporter is compelled to bear the loss. Prudent exporters, when dealing with unknown customers on DP or DA payment terms, prefer to get cargo insured. Further, as a commercial practice, cargo insurance makes it possible for the exporter to get post-shipment finance from the negotiating bank because the insurance policy is one of the required documents under a c.i.f. contract. If on the other hand, the contract is on f.o.b.terms with payment on DP or DA basis, the negotiation bank may advance money immediately after shipment (provided the shipping documents are in order and the bank is favoured with an appropriate insurance policy.)

12.3 NATURE OF CARGO INSURANCE POLICY

A marine or cargo insurance policy has an international character and, therefore, a policy taken in one country is acceptable in other country. This is because of the adoption of universally acceptable uniform rules governing insurance in different countries. Marine insurance in India is subject to the following legislations:

i) The Insurance Act, 1938; and Insurance Rules, 1939

ii) Marine Insurance Act, 1963.

In India, the cargo insurance cover is provided only by the Nationalised Insurance Companies. These companies operate within the standard rules and regulations including those, which are provided in the "All India Marine Cargo Tariff".

Marine Insurance Contract

Article 3 of the Indian Marine Insurance Act, 1963 defines marine insurance contract as "It is an agreement whereby the insurer undertakes to indemnify the assured in the manner and to extent thereby agreed, against marine losses, that is to say, the losses incidental to marine adventure". Before we explain different aspects of the marine insurance contract, it should be clearly understood that the word "marine" used in the definition does not have any specific connotation. Despite the usage of this word, cargo insurance principles as stated in the definition are equally applicable to all modes of transport used in the carriage of goods.

Indemnity and Insurable Value

The insurance contract is in the nature of indemnity. The literal meaning of indemnity is protection against loss or making good the loss. The object of an insurance contract is to place the insured, after a loss, in the same relative position in which he would have stood had no loss occurred. In other words, an insured can claim only that much that he has suffered (or lost). If cargo has been damaged by 10 per cent of the insured value, the insured will be paid only that much amount, even though he has paid premium on the total insured value. But it must also be understood that the indemnity undertaking of the insurance company is only a "commercial" indemnity. The insurance company will place the assured in the same "financial" position as he was before the loss, since the insurance companies cannot undertake to reinstate or replace cargo in the event of a loss, they pay a sum of money, agreed in advance, between the insured and the insurer, called "insurable value". Insurable value is calculated with reference to the "market value" of the insurance goods to which is added an agreed percentage to cover general overheads as well as to provide a margin of profit on the transaction. From this range, an indemnity in insurance does not cover either a gambling loss or a sentimental loss (if tangible loss). Consequently, over-insurance i.e., insurance more than the market value plus a certain percentage is not the principle of cargo insurance.

In practice, the amount of loss payable is based on the c.i.f. value of goods to which is added an agreed percentage. According to prevailing practice in India, maximum insurable value for export cargo is equal to c.i.f. plus 15 per cent. Generally, the percentage added to c.i.f. value is 10. It is customary in the insurance business to issue "duty" policies to cover duty payable on the imported goods. In such cases, claims are payable either on the basis of actual duty paid or on the basis of the sum insured, whichever is less. Thus, the sum payable cannot exceed the actual loss of the duty amount paid by the insured. It is also implied that the sum insured in the "duty" policy would not include any percentage to cover general overheads and the margin of profit.

12.4 KINDS OF PERILS

The cargo insurance policy can be as wide as to cover all possible kinds of risk and losses to which cargo could be exposed in transit. The events, which lead to loss or damage to the cargo, are the perils against which insurance cover can be obtained. Those perils may be categorised into four groups. Let us discuss them in detail.

12.4.1 Maritime Perils

These perils are the ones to which cargo is exposed in transit and caused by either an Act of God (i.e., a natural calamity) or an Act of Man (man-made event, either through negligence or through connivance). The perils may occur while the cargo is in transit either on land, inland water, and sea or in air. An act of God may also be described as "extraordinary and violent action of waves and winds". Common examples of Act of God are earthquake, volcanic eruption and lightening, entry of seawater into the Vessel, washing overboard of cargo and rainwater damage. Common example of man-made perils are: fire, explosion, smoke and water used to extinguish fire, piracy, and barratry and deliberate (i.e., vandalism, sabotage, arson or scuttling).

12.4.2 Extraneous Perils

These are the incidental perils to which the cargo is exposed. These are caused mainly on account of the faults in loading, keeping, carrying and unloading of cargo. Examples of such perils are: improper stowage, rough handling, breakage and leakage, hook and sling damage, contract with mud, oils and acids and theft, pilferage and non-delivery.

The maritime and extraneous perils are incorporated in the Institute Cargo Clauses standardised by the Institute of London Underwriters. These clauses constitute the terms and conditions of the insurance and are appended to the policy form known as MAR policy form.

12.4.3 War Perils

War perils covered by the Institute War Clauses refer to following events:

i) War, civil war, revolution, rebellion, insurrection or civil strike or any hostile act by or against a belligerent power;

ii) Capture, seizure, arrest, restraint or detainment of carrier or craft arising from event mentioned in (i) above. Thus, confiscation by the customs authorities of goods being smuggled cannot be insured; and

iii) Derelict (abandoned) mines, torpedoes, bombs or other derelict weapons of war. It is clear from the above that war risk insurance is not only against hostile or warlike acts but also for perils which continue to exist after war is over.

War risk cover is provided with certain restrictions about the duration of the cover. Some of the major restrictions are:

a) The cover is restricted to the period while the goods are water-borne in the ship or are in the craft;

b) The cover attaches as the goods are loaded into the vessel/aircraft or craft used to carry the goods to the vessel;

c) The cover terminates either as the goods are discharged from the vessel/aircraft at the final port of discharge or on the expiry of 15 days from the midnight of the day of the arrival, whichever is earlier. The limit of 15 days also applies to cases where vessel/aircraft carrying cargo cannot go to the final port and the cargo is discharged at some other port; and

d) In the case of sea shipments, the 15-day limit does not apply where cargo after being discharged from the overseas vessel into a craft for delivering the cargo to the shore. The time limit for goods in crafts is 60 days after discharge from the overseas vessel.

12.4.4 Strike Perils

In marine insurance, strike perils mean events, which lead to loss or damage to cargo caused by:

i) Strikes, lock-out workmen or persons taking part in labour disturbances, riots or civil commissions; and

ii) A terrorist or any person acting from a political motive.

It is clear from the above that strike perils are not only the ones which are caused by the striking workmen. These also include perils caused by the political activities, which participate or lead to the strike. In fact, strike perils, as opposed to war perils are the handiwork of citizens of the same country. The perils covered under the Institute's Strike Clauses supplement of the perils covered under the Institute War Clauses. It is, therefore, customary for war and strike risks to be covered jointly on payment of a single premium. However, strike clauses have been so designed that they can be used separately from the war risk cover.

Regarding the duration of the cover, the strike risks cover is from warehouse of the exporter to warehouse of the importer. It exists throughout the whole period of transit. This stipulation is in contrast to the 15-day time limit for war risks cover at either the final port of discharge or at an intermediate port. However, even when cover is from the warehouse of the seller to that of the buyer, there is an implied time limit for transport of cargo from the final port of discharge to the warehouse of the buyer. This time limit is 60 days in the case of marine (sea) transit and 30 days for air transit, after the final discharge at the port.

Check Your Progress A

1. What do you mean by marine insurance contract?

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2. Distinguish between maritime perils and extraneous perils.

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State whether the following statements are **True** or **False**.

i) Cargo insurance policy gives protection against loss of goods.

ii). The cargo insurance contract is meant for the replacement of lost or damaged goods.

iii) Insurance value for export consignment is calculated on the basis of C& F plus some percentage.

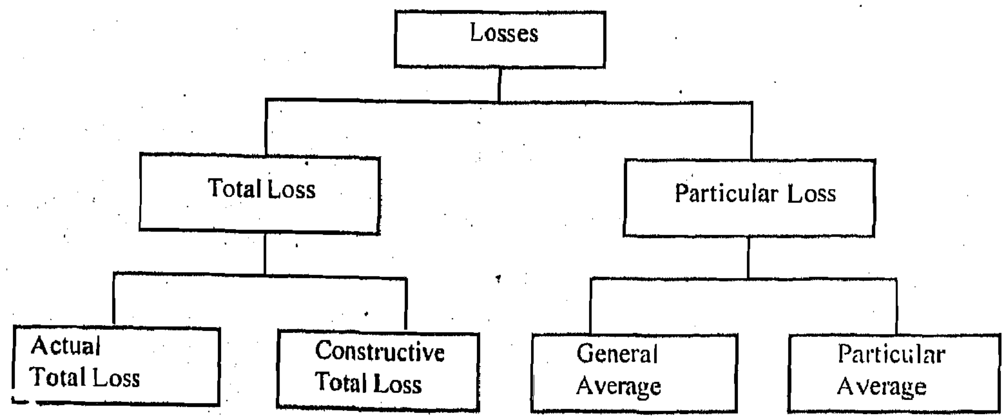
iv) Maritime perils refer perils when cargo is in the ship.

v) War perils occur during war and peacetime.

12.5 TYPES OF LOSSES

Let us now discuss the extent of loss coverage provided in the insurance policy. For this purpose, you should first understand the meaning of the term of "Loss". Look at Figure 12.1 carefully which depicts various types of losses. Let us now discuss them in detail.

Figure 12.1: Various Types of Losses



12.5.1 Total Loss

There are two types of losses. These are discussed below.

Actual Total Loss (ATL): An actual total loss may occur in three ways. **Firstly** when the insured cargo is physically destroyed, when fire in the hold of the ship destroys completely a consignment of paper or when a ship sinks in deep water and the ship with cargo is destroyed and there is no possibility of salvage (recovery). **Secondly** the insured cargo is so damaged that it ceases to be a thing insured, as in the case of cement that becomes concrete due to damage by seawater. **Thirdly** actual loss also occurs when the insured cargo is irretrievably lost beyond a reasonable time period. For example, ship with cargo sinks which can be retrieved, but will take so mush of time that the insured goods would cease to be of value to the insured. Similarly, when cargo is mislocated, the insured may consider it total loss if it cannot be restored to him within a reasonable time period.

Constructive Total Loss (CTL): Unlike the actual total loss, CTL is not a physical loss and is not absolute. CTL may be defined as a total loss when the cost of saving, repairing or reconditioning the insured goods is more than the value of goods. For example, a machine while loading on board the carrier is damaged and the cost of repairing is so prohibitive that the insured may consider this damage as total loss. On examination of the nature of damage and the expected cost of repairing, the insurance company may also consider it as a total loss. CTL may also be claimed when an actual total loss seems unavoidable. For example, cargo in a ship while ground or ashore cannot be taken out of the ship within a reasonable cost, the assured may claim CTL.

While claiming CTL the insured is required to abandon (or leave) his interest in the insured cargo in favour of the insurance company. This is because the insured cannot retain the goods as well as claim total loss and he has, therefore, to forego his rights in the goods.

12.5.2 Particular Loss

There are two types of partial losses as explained below:

General Average: Sometimes a shipowner either sacrifices some cargo the ship is carrying or incurs some expenditure, which becomes necessary to save the journey. Such a sacrifice or expenditure will have to be shared-by the interests in the saved journey. Thus, the insured will be protected from paying for the loss. Partial loss or Average of this nature is known as General Average or GA and comes into being only when the ship carrying cargo arrives safely. If a ship is lost and does not, therefore, arrive at the ultimate destination, there can be no GA.

GA is defined as "an extraordinary sacrifice or expenditure intentionally and reasonably made or incurred for the common safety for the purpose of preserving from the peril, the property involved in a common maritime adventure. In other words, GA arises by either sacrificing (or destroying) the property (say, cargo) or incurring an expenditure (say, expenses to bring ship to safety). But the sacrifice/expenditure must arise out of some extraordinary events, which might lead to loss to all the parties in the adventure (journey). Further, the sacrifice /expenditure must be made knowingly but prudently and reasonably.

Regarding GA, an accepted principle of maritime law is "that all who expose their property to maritime perils are in it together and should share in any misfortunate on an equal basis", In other words, GA sacrifices\expenditure is to be shared by all interests in the journey, i.e., the cargo owners, shipowners and freight earners.

GA expenditure can be understood clearly from the following example:

i) Some cargo is thrown into the sea to lighten the ship in rough weather;

ii) Water is poured on cargo (not on fire) to extinguish a fire;

iii) Expenses are incurred to tow a ship in the danger of sinking to the safety of the port;

iv) A part of cargo is burnt to maintain steam in the ship's boilers when the ship runs short of fuel due to delay caused by heavy weather.

The sharing of GA sacrifice or expenditure by the three parties to the adventure is done in accordance with the internationally agreed Rules, known as the York-Antwarp Rules 1974.

The working out of the shares and the preparation of the GA statement is entrusted to an Average Adjuster who is an expert in the field. When the ship arrives at the destination port, it is declared to be on general average by the shipowner and an Average Adjuster is appointed. The Average Adjuster will draw up the statement of percentage of GA contribution by each cargo owner and calculate the value of shares of all interests. The shipowner then requires all these interests including cargo owners to pay a GA deposit and execute bond. Thereafter, cargo will be released to the cargo-owners. The shipowner may, however, deliver the cargo against either an underwriter's (insurance company's) or a banker's guarantee. On completion of final adjustment, the excess, if any, is to be paid by the cargo-owner by honouring the bond.

Where the cargo-owners has an insurance policy, he will recover the GA contribution or the loss suffered by him from the insurance company. All marine policies cover GA loss and sacrifice and the insurance companies settle claims for GA contribution and normally refund GA deposits.

Particular Average: It is defined as partial loss or damage caused accidentally by a peril insured against. Thus, when such a loss takes place, there is to be no contribution from other interest in the journey, as in the case of General Average loss. It becomes payable only when it is covered in the policy.

12.5.3 Coverage and Institute Cargo Clause

Generally these perils are grouped in categories. Depending on the types of cargo policies (which exclude war and strike covers) is: Institute cargo clauses A, B and C. While 'C' is the least available cover, 'B' is better than 'C'. 'A' is the most superior cover.

12.5.4 Exclusion Clauses

Notwithstanding the vast range of perils covered under the contract of cargo insurance, insurance cover is not provided against a number of perils and losses. The perils and losses, which are not covered under the cargo insurance contract, are covered under the Exclusion clauses. These include the following:

i) General Exclusion clauses

ii) War Exclusion clauses

iii) Unseaworthiness and Unfitness Exclusion clauses.

12.5.5 Recoverable Expenses

An insurance company will pay expenses incurred by the insured for recovering loss for preventing it to the cargo. This is, however, subject to two conditions. Firstly, the expenses must be to prevent or minimise the loss due to the insured perils. Secondly the liability of the insurance company will not exceed the sum insured. These recoverable charges are:

a) Extra charges which include survey fees and reconditioning costs;

b) Sue and labour charges, which include all expenses to prevent loss damage to goods for which insurance company would be liable; and

c) Forwarding expenses, which may be incurred when voyage is terminated short of destination.

12.6 TYPES OF POLICIES

The contract of cargo insurance in international trade transactions takes three forms. It comes into being when either a specific Voyage (and time) policy or an open cover or an open policy is procured.

12.6.1 Specific Voyage Policy

A Voyage policy covers the risks that may arise during a journey from specific place to another.

The terms and conditions of the insurance are set out in the appropriate I.L.U. (Institute of London Underwrites) and other clauses. The clauses cover mainly the perils and risk covered under the policy as well as conditions related to the insurable value and claims.

According to the Indian Stamp Act, each policy must be stamped. The stamp duty is recoverable from the insured. For creating transferability, the policy is required to be assigned by blank endorsement by writing "for and on behalf of" followed by the name of the insured (e.g., exporting firm) and the signature of the director or partner.

The insurance policy comprises "MAR" Policy form, which contains no insurance conditions. And the Institute clauses (A, B or C and War and Strike Clauses) which contain insurance conditions. It must be noted that Duration Clauses, which provide warehouse-to-warehouse cover, are part of the Institute Cargo Clauses. Hence, unless specifically deleted, the warehouse-to-warehouse cover is deemed to be effective. In this way,voyage policy also becomes a Time policy.

12.6.2 Open Cover

Open cover is an insurance arrangement designed specifically to the need of those firms, which have substantial import export turnover and frequent transactions. Such firms are spared the inconvenience of negotiating insurance contracts every time the transaction is to be made. Main features of an open cover arrangement are as follows:

i) Unlike an insurance policy, open cover is not an enforceable contract. Instead it is an agreement under which the insurance company would honour and accept declarations of shipment of cargos and issue stamped specific certificate of insurance against each declaration.

ii) Under an open cover arrangement, agreement between the insured and the insurer is reached about the subject matter (e.g., goods) insured, packing conditions, voyages, risks covered, rates and other conditions of the cover. The insured can obtain insurance cover within these agreed conditions.

iii) No premium is charged when an open cover is issued, but the insurance companies usually require the insured to furnish either a bank guarantee or cash deposits towards payment of premium against each declaration, as declarations are made.

iv) The validity period of an open cover is twelve months.

v) It is customary to make an open cover agreement subject to two limitation clauses— Par Bottom and Par Place clauses. The effect of these clauses is to limit the liability of the insurance company to an agreed amount. Thus, if the loss in an accident is more than this amount, the loss will be partly recoverable upto the agreed amount. For example, in an open cover, if the limitation clause was for Rs. 10 lakhs and the loss were Rs. 20 lakhs, the insurance company will pay only Rs. 10 lakhs.

vi) An open cover may be cancelled by either party by giving 30 days notice in writing. This stipulation does not cover war and strikes risks for ocean voyage. For ocean voyages other than from/to USA, the notice period for cancellation of War and strikes risks is seven days and for shipments from/to USA it is 48 hours.

vii) When the loss takes place, claim will be awarded with reference to insurable value calculated on the basis of c.i.f. plus 10 per cent.

viii) The duty of the insured is to declare each and every shipment as soon as known. Unintentional failure to report shipment will be condoned by the insurance company. However, if the insured does not willfully report shipments, the insurance company may hold the open cover null and void for all subsequent shipments.

12.6.3 Open Policy

Also known as Floating policy, it has much in a common with the open cover. This policy benefits clients with substantial turnover and a large number of despatches. Thus, it covers a series of consignments with all stipulations of the open cover, except that:

i) Open policy is an enforceable contract of insurance and is hence, duly stamped; and

ii) Open policy is for an agreed amount, against which a series of consignments may be despatched and declared as a result of which the sum insured will gradually diminish by the amount of each declaration until it is finally exhausted.

iii) Even though the open policy ceases on expiry of one year from the date of its issue, the sum insured is of paramount importance. Therefore, the sum insured may exhaust prior to the expiry of the policy.

iv) Open policy is subject to cancellation by either party after giving 15 days notice of cancellation in writing.

12.7 INSURANCE CLAIMS

When there is a loss, the insured is to proceed to claim the loss recovery from the insurer. The cardinal principle about insurance claims is that the insured has to fulfil the clearly defined responsibilities. If he does not fulfil these responsibilities, the insurer can refuse to pay.

12.7.1 Responsibilities of the Insured

It is the duty of the insured or his agents, in all cases, to take such measures as may be reasonable to avert or minimise a loss. Further, it is also his duty to protect rights of the insurer of recovery from the carriers, port authority and others. In particular, the duties of the insured or his agent are:

i) Lodge claim on the carriers, port authorities and other intermediaries for any missing packages;

ii) If the loss or damage is apparent or visible, make an application to the agents of the carriers, port authority, customs authority and the insurer (or agent) to arrange joint survey within 3 days of discharge of cargo from the vessel (7 days in case of air consignment);

iii) If the loss was not apparent at the time of taking delivery of cargo, give notice in writing to the carriers and other parties within 3 days of delivery of cargo (7 days in case of air consignment);

iv) Lodge a proper monetary claim on carriers, port authority and customs authority;

v) In case of any missing package, get a log entry made with the port authority and lodge a claim on carrier and port authority;

vi) If missing packages are traced subsequently, clearance may be made only after a joint survey;

vii) The claims on carriers, customs and port authorities should be filed within the time limits prescribed under the relevant laws.

12.7.2 Filing Claims

The insured will file claim with the insurance company after meeting the aforementioned requirements. The insurance company is generally contacted immediately on discovery of loss to the cargo which will assist the insured in carrying out the responsibilities.

It is quite natural that there is disagreement between the insured and the insurers regarding insurance claims. In such a case, the insured can take legal recourse against the insurers and file a legal suit. However, under the Indian Limitation Act, no suit can be filed against the insurers in respect of a claim under an insurance policy after a lapse of three years.

a) The date of occurrence causing the losses; or

b) The date when the claim is repudiated either partly or wholly.

It is clear that if liability is not denied for three years, the claim of the insured would become time barred under the law. If the claimants want to keep their claim right open, they will have to file suit against the insurers before the expiry of the period of three years. The claim would also remain open, if the insurers belatedly repudiate the claim.

12.7.3 Documents for Claims

The claims on the insurers should be submitted duly supported by the following documents:

i) Original insurance policy or certificate of insurance duly endorsed by the insured;

ii) Full set of Bill of Lading in respect of total loss claims. Otherwise non-negotiating copy of the Bill of Lading, Airway Bill, Railway, etc., as applicable;

iii) Copy of invoice with packing/weight list;

iv) Insurance survey Report or other documentary evidence to substantiate cause and extent of loss;

v) Joint ship survey Discrepancy Certificate issued by the carriers;

vi) Port authority Landing Remarks certificate;

vii) Casualty report when a vessel is missing or lost;

viii) Ship Master's protest or an authenticated copy of extract from ship's Log book in case vessel encountered heavy weather or other casualty during the voyage;

ix) In case of short landing claims, a Short Landing Certificate issued by the carrier or port authority;

x) A landed but Missing Certificate from port authority in case where package has landed but is missing;

xi) In the event of General Average claim for refund of GA Deposit; the GA Deposit Receipt and GA Counter-Guarantee;

xii) Triplicate copy of Bill of Entry (in case of India);

xiii) Copies of Letter lodging claims on the carriers, port authority, etc;

xiv) Copies of correspondence exchanged with carriers to examine whether the claimant has taken necessary measures;

xv) Letter of subrogation duly stamped and signed; and

xvi) Any other document as may be asked for by the insurers.

Check Your Progress B

1. What is difference between Actual Total Loss and Constructive Total Loss?

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2. List five important documents required for filing the insurance claims.

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3. State whether the following statements are **True** or **False**.

   i) Particular average refers the partial loss caused accidentally by an insured peril.
   ii) Institute cargo clause B is the most superior cover.
   iii) The exclusion clause covers those perils, which are not covered under the cargo insurance contract.
   iv) The validity period of open cover is 6 months.
   v) Open policy is subject to cancellation by either party after giving 15 days notice of cancellation in writing.

4. Fill in the blanks.

   i) The Voyage Policy which covers the risk that arise during the journey from one specific place to another is known as ....
   ii) An Open cover may be cancelled by either party by giving .... days notice in writing.
   iii) In case of apparent loss or damage, joint survey must be arranged within ....
   iv) Institute cargo clause B is better than ....

12.8 LET US SUM UP

Cargo or marine insurance is the practice of providing risk cover to the cargo-owners against loss or damage that the cargo may suffer in transit due to accidents and mishaps. The perils, which cause loss or damage may be due to natural calamities (Act of God) as well as man, made accidents. Traders obtain insurance covers in international business because of two reasons — legal and commercial. Since law protects the intermediaries who handle and transport cargo, the cargo-owners will be able to recover loss from the insurance company, when such loss can't be legally recovered from the intermediaries. Commercially, insurance cover is essential to be obtained by the exporter when it is the requirement under an export contract, as in the case of c.i.f. contract.

A cargo insurance contract is between the insured and the insurance company, which is in the nature of a financial indemnity. The insurance company undertakes to make good the loss to the maximum value as agreed with the insured perils or risks. Loss is payable only when it has been proximately caused by the insured peril. The insurance value is agreed on the basis of the c.i.f. value of goods plus a percentage (generally, ten percent). Insurance policies to cover the payable customs duties are also issued in case of import cargo.

The cargo insurance policy can have a very wide scope to cover all possible perils and losses. It provides protection against total loss (actual and constructive) and partial loss (general average and particular average) against maritime, extraneous, war and strike perils. The policies are generally fixed on the basis of standard terms and conditions stated in the Institute Clauses — Institute cargo, war and strike clauses. The Institute cargo clauses fall under three kinds A, B and C. Clause 'C' gives the least and Clause 'A' provides the maximum covers. Cargo clauses also provide warehouse-to-warehouse cover.

Cargo insurance may be arranged either for specific voyage or to cover a number of voyages. Where the latter arrangement is made, it may either be under an open cover or an open policy. Open cover is an agreement with the insurance company for a specific time period (more than one year) under which all shipments during this period would be covered and the insurance company for a specific time period (more than one year) under which all shipments during this period would be covered and the insurance company would be obliged to issue insurance certificates. Open policy is an agreement for a defined value such that as and when shipments are made, the value gets reduced till it becomes nil. Both these arrangements are subject to certain limitations.

The insured has certain responsibilities to fulfil, if he is to recover the loss from the insurance company without a hitch. Not only should he perform his duty to protect his direct interest but also that of the insurance company by lodging claims against the third parties. Further, he should follow the laid-down procedure and file the claim with necessary documents.

12.9 KEY WORDS

Constructive Total Loss: A total loss when the cost of saving, repairing or reconditioning the insured goods is more than the value of goods.

Exclusion Clauses: The perils and losses, which are not covered under the cargo insurance contract.

Insurance Value: The sum of money, agreed in advance, between the insured and the insurer.

Maritime Insurance Contract: An agreement whereby the insurer undertakes to indemnify the assured in the manner and to extent thereby agreed, against marine losses.

Maritime Perils: Perils, which the cargo is exposed in transit and caused by either an act of God or an act of man.

Specific Voyage Policy: A voyage policy that covers the risks that may arise during a journey from specific place to another.

12.10 ANSWERS TO CHECK YOUR PROGRESS

A 3 i) True ii) False iii) True iv) False v) True

B 3 ii) True ii) False iii) True iv) False v) True

4 iii) Specific Voyage Policy ii) Thirty iii) Three iv) C

12.11 TERMINAL QUESTIONS

1) Why cargo insurance is needed? Explain with suitable examples.
2) Describe various types of perils in cargo insurance policy against which insurance cover can be obtained.
3) Explain the kinds of losses. How these losses can be covered by the cargo insurance policy?
4) Explain the features of Open Cover Policy.
5) Distinguish between Open Cover and Open Policy.
6) What are the responsibilities of the insured in a cargo insurance policy?
7) Enumerate the documents needed for filing the cargo insurance claims.