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INLAND MARINE INSURANCE

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CHAPTER 1 – ORIGINS OF MARINE INSURANCE

INTRODUCTION

Probably the first form of insurance was the protection that was offered on a Captain=s Cargo that was traveling on the high seas. Since losses through shipwrecks and the activities of foreign governments, the need for Ocean Marine Policies became evident. The cargo on the ships was protected from one port to the next.

As civilization developed, the growth of towns along the water led to the implementation of extended coverage for important cargo. The cargo was insured as it was being transported from the decks to its final destination, and it didn=t matter how far the cargo was to travel inland, it was protected from loss.

Some enterprising merchants showed a desire for protection for their goods as it traveled over land, thus, the creation of Inland Marine Insurance that covered goods being transported inland.

INLAND MARINE INSURANCE EXPANSION

Today, Inland Marine Insurance covers a wide array of merchandise and also property that is considered to be movable or "floats".

Our reason for the expansion of Inland Marine Insurance is the flexibility that many insurers have used in developing property protection. Since there was no state intervention, many insurers simply instituted their own policy forms and rates, thus being able to streamline coverage according to each individual situation.

Another reason for the popularity of Inland Marine Insurance was the all-inclusive nature of the coverage. Inland Marine contracts were frequently written on an "All-Risk" basis which favored the insured greatly. This led to conflict with the Casualty Insurers as insureds favored the "All- Risk" Coverage as opposed to the Limiting Named Peril Basis.

Finally, in 1933, the National Association of Insurance Commissioners (NAIC) developed the "Nationwide definition and interpretation of the insuring powers of Marine and Transportation Underwriters" - better known as the "Nationwide Definition". The NAIC was intent on resolving the differences between the Casualty and Marine Underwriters. Basically, the document itemized the risks and coverages, which were allowed to be written as Marine Insurance. Through two revisions (1953 & 1976), a majority of states now adhere to the NAIC model definition. The major changes introduced by the 1976 revision separated Personal from Commercial Risks and listed the following classes as eligible for Marine Underwriting:

1. shipments of domestic commerce

2. property in the custody of bailiffs
3. installation risks
4. electronics processing policies
5. bridges and piers
6. policies covering difference in conditions

In summary, the 1933 definitions were the initial effort by the NAIC to control what could be written as Inland Marine Insurance. The 1953 and 1976 revisions basically identified and classified the various marine risks.

THE ROLE OF THE HOMEOWNER POLICY

Because of the various exclusions and limitations of coverage under a Homeowners Policy, owners of valuable Personal Property often demand broader and more Comprehensive Coverage than that provided by their Homeowners Policy.

Example: *Homeowners Policies provide only Unscheduled Coverage and specific items are not listed. Also, some of the Homeowners Policies insure only against specific named perils which could be quite limiting to the insured. Homeowners policies also place total, aggregate limits on certain classes of the insured=s Personal Property. So, if the insured=s personal property, such as a mink coat, jewelry, stamp collection and silverware, were all destroyed by a fire, he/she would only receive the aggregate amount of coverage and not specific dollar amounts for each particular item. Because of these coverage limitations, the insured would probably desire extended Comprehensive Coverage on his/her valuable Personal Property.*

CHAPTER 1 – ORIGINS OF MARINE INSURANCE

CHAPTER 1 - QUESTIONS

1. Inland Marine Insurance covers a wide array of merchandise that is considered to be:

a. movable
b. stationary
c. permanent
d. temporary

2. One reason for the expansion of Inland Marine Insurance was its

a. permanence
b. flexibility
c. standard rates
d. standard forms

3. The NAIC developed the nationwide definition of Marine Insurance by

a. itemizing risks
b. itemizing coverages
c. both a & b
d. neither a or B

4. Homeowners Policies usually provide only:

a. Scheduled Coverage
b. All-Risk Coverage
c. unlimited limits on certain classes
d. Unscheduled Coverage

5. In reality, the Inland Marine Policy will

a. limit Homeowners Coverages
b. broaden Homeowners 10
c. restrict Homeowners Coverage
d. none of the above

answers
1. a
2. b
3. c
4. d
5. b

CHAPTER 2 – CHARACTERISTICS OF INLAND MARINE FLOATERS

GENERAL CHARACTERISTICS

There are 4 general characteristics that are present in Inland Marine Floater Policies. They are:

1. ***Coverage can be personalized to any specific type of property***. The Personal Articles Floater (discussed later) provides coverage for 9 optional classes of personal property. The insured can select coverage for the class or classes of property needed to be covered. The flexibility is evident when the insured is able to cover jewelry and a valuable camera with Floaters.

2. ***The insured can select the desired policy limits***. Since Homeowners Policies have limitations on coverage of certain types of valuable Personal Property, Inland Marine Floater Policies are quite popular. The advantage of the insured selecting his/her own policy limits is that the insured is given the flexibility of estimating their own value, thus providing adequate protection.

3. ***Floaters provide extensive coverage with respect to the perils covered***. As noted earlier, Floaters are written on an "All- Risks" basis. The Floater will cover all Direct Physical Loss to the covered property.

4. ***Most Floaters cover the property anywhere in the world***. A point to remember, fine arts are generally covered only in the United States and Canada.

FLOATER POLICY PROVISIONS

There are 9 general provisions in floaters:

1. Insuring Agreement
2. General Conditions
3. Loss Settlement
4. Loss to a Pair, Set or Parts
5. Loss Clause
6. Claim Against Others
7. Insurance Not to Benefit Others
8. Other Insurance
9. General Provisions

Insuring Agreement - Most floater policies insure the covered property on an "All-Risks" Basis. All Direct Physical Losses are covered except these exclusions:

1. wear and tear, deterioration or inherent use

2. insects or vermin

3. mechanical or electrical breakdown or failure

4. repairing, adjusting, servicing or maintaining the property

General Conditions - Numerous conditions appear in an Inland Marine Floater covering Personal Property. We have listed them separately due to their importance in the Personal Floater Policy.

Loss Settlement - The amount paid for a covered loss is the lowest of the following 4 amounts:

1. the Actual Cash Value at the time of loss.

2. the amount for which the insured could reasonably be expected to have the property repaired to its condition immediately prior to the loss.

3. the amount for which the insured could reasonably be expected to replace the property with identical property of that lost or damaged. Much of the property insured in a Floater Policy can be purchased by the insurer at a discounted price. The insurer may offer to replace the lost or damaged property rather than make a cash settlement. If the replacement offer is rejected by the insured, the insurer and cash settlement is limited to the amount for which the insured could reasonably be expected to replace the item. This amount is the insurer-discounted price for which the insured can reasonably expect to replace the item for.

4. *Loss to a pair, set or parts*. When the loss of, or damage to, an item is a pair or set, the amount paid is not based on a total loss. Instead, the insurer has the option to repair or replace any part, to restore the pair or set to its original value, the amount of insurance stated in the policy.

Before the loss, the insured could also pay the difference between the Actual Cash Value of the property before and after the loss.

Loss Clause - Under this particular provision, the amount of insurance is not reduced except for the total loss of a Scheduled Article. If the insurance is reduced because of the total loss of a Scheduled Article, the unearned premium is refunded, or the insured can apply it to the premium due if the Scheduled Article is replaced.

Claims Against Others - This provision states that if a loss occurs and the insurer believes they can recover the loss payment from the person or parties responsible, the Loss Payment to the insured is considered a loan to be repaid out of any recovery from others. Of course, the insured is expected to cooperate with the company in its attempt to recover from those responsible for the loss. If the recovery attempt is unsuccessful, the insured is not required to repay the Loss Settlement "loan".

Insurance Not To Benefit Others - This provision states that no other person or organization that has custody of the property and is paid for services can benefit from the insurance on the property. This provision prevents a third party who caused the loss from denying liability for payment because the property is insured.

Special Exclusions - The general exclusions of War and Nuclear Reaction or Radiation appear in all Floater Policies. In addition to the General Exclusions, there are special exclusions that apply to the specific type of insured property. These Special Exclusions will be discussed when the different Floater Policies are covered.

CHAPTER 2 – CHARACTERISTICS OF INLAND MARINE FLOATERS

CHAPTER 2 - QUESTIONS

1. A general characteristic present in the Inland Marine Floater Policies would be:

a. coverage can be personalized
b. insured can select the desired policy limits
c. floaters cover the property anywhere in the world
d. all of the above

2. All of the following are Floater Policy Provisions except:

a. Amendments
b. General Conditions
c. Loss Settlement
d. Insuring Agreement

3. The Insuring Agreement in most Floater Marine Policies insures the covered property on:

a. Named Peril Basis
b. “All-Risk” Basis
c. Excludable Perils Basis
d. all of the above

4. What provisions will make the Floater Policy excess coverage?

a. Loss Settlement
b. General Exclusions
c. Other Insurance
d. none of the above

5. What exclusions appear in all Floater Policies?

a. nuclear reaction
b. radiation
c. both a & b
d. neither a or b

answers

1. d
2. a
3. b
4. c
5. c

CHAPTER 3 – THE PERSONAL ARTICLES FLOATER

INTRODUCTION

The Personal Articles Floater (PAF) covers 9 classes of Personal Property against risks of Direct Physical Loss. Coverage is worldwide except for fine arts. The following 9 classes of Personal Property can be insured:

1. jewelry
2. furs
3. cameras
4. musical instruments
5. silverware
6. golfing equipment
7. fine arts
8. postage stamps
9. rare and current coins

Certain classes of newly acquired property, such as: jewelry, furs, cameras and musical instruments, are automatically covered for 30 days if the insurance is already written on that particular class of property. The amount of insurance on newly acquired property is limited to 25% of the amount of insurance for that class of property or $10,000, whichever is lower. The property must be reported to the company within 30 days after acquiring it to continue the coverage, and an additional premium must be paid from the date of acquisition.

Jewelry - any article of jewelry may be insured. The policy also covers silverware, plateware, pewterware, toilet articles, cigarette cases and trophies. Jewelry may be insured separately or together with furs. Each item of jewelry must be scheduled and a specific amount of insurance shown for it. Insurance on jewelry is carefully underwritten because of the moral hazard. Original bills of sale or a signed appraisal may be required before the jewelry is insured.

Furs - any article of fur, or article trimmed with fur, in which fur represents the principal value (fur rugs and imitation furs). Each item must be listed separately and a specific amount of insurance shown for it. Furs also are carefully underwritten because of the moral hazard. If, during the term of the policy, the insured purchases additional furs, the newly purchased property is covered automatically. The insured must notify the company within 30 days of its purchase subject to the following condition:

> insurer is not liable for more than 25% of the amount of insurance already covered on that class of property or $10,000 covered under the policy.

CHAPTER 3 – THE PERSONAL ARTICLES FLOATER

Cameras and Camera Equipment - Cameras, films, telescopes, binoculars, microscopes and projectors used in photography. Additional insurance can be purchased to cover the Blanket Insurance, but such insurance may not exceed 10% of the total amount on the scheduled items. This insurance is used to cover: filters, sunshades, meters and like smaller items. Not covered would be TV cameras and equipment, coin operated devices, area and radar cameras, camera property. Professional use is covered by endorsement and additional premium.

Musical Instruments - Musical instruments, instrument cases, sound and amplifying equipment and similar equipment can be insured under the Personal Articles Floater. Keep in mind that musical instruments played for pay during the policy period are not covered unless an Endorsement is added and a higher premium paid. Radios, televisions and stereos are not eligible for insurance under this policy.

Silverware - Silver and goldware can also be insured under the Personal Articles Floater however, pens, pencils, flasks, smoking implements, or jewelry cannot be insured as silverware. These types of property may be insured as jewelry.

Golfing Equipment - Golfing equipment, including golf clothes, can be insured under the Personal Articles Floater. Other clothing contained in a locker while the insured is playing golf is also covered. Golf balls, however, are covered for loss only by fire and burglary if there are visible marks of forcible entry into the building, room or locker.

Fine Arts - Fine arts include private collection of paintings, antique furniture, rare books, rare glass, manuscripts and bric-a-brac. Fine arts are insured on a valued basis. If a valuable painting is stolen, the amount of insurance stated in the Schedule for that item is the amount paid.

Newly acquired fine arts are automatically insured for 90 days, however, the insured is required to notify the insurer of the purchase within 90 days and pay the additional premium. The limit of such property is 25% of the total insurance.

Fine Arts Coverage has 3 major exclusions:

1. loss to property on exhibition at fairgrounds or at national/international expositions unless the premises are covered by the policy.

2. breakage of art glass windows, glassware, statuary, marble, bric-a-brac, porcelain and similar fragile articles are also excluded. The exclusion does not apply if the breakage is caused by fire, lightning, explosion, aircraft, collision, windstorm, earthquake, flood, malicious damage or theft, and derailment or overturn.

3. damage as a result of repairing, restoration or retouching process.

Stamp and Coin Collection - valuable Stamp and Coin Collections are also insured under the PAF. The stamps and coins can be insured on either a Scheduled or Blanket Basis. If the items are valuable, the property should be scheduled so that each item is listed and insured. If the property is insured on a Blanket Basis, each item is not separately listed and the insurance applies to the entire collection.

Loss Settlement - If a loss occurs to a scheduled item, the amount paid is the lowest of the following accounts:

1. Actual Cash Value
2. the amount for which the property could reasonably be expected to be repaired
3. the amount for which the property could reasonably expected to be replaced
4. the amount of insurance.

If the stamps or coins are covered on a Blanket Basis, the amount paid is the Cash Market Value at the time of loss. There is a $1,000 maximum limit of any unscheduled coin collected and a $250 maximum limit on any single stamp, coin or individual article, or any single pair, block, series, sheet, cover, frame or card.

Another limit also applies if the stamps or coins are insured on a Blanket Basis, and it has the effect of a 100% Coinsurance Clause. The insurance company is not liable for a greater proportion of any loss than the amount of insurance on Blanket Property bears to the Cash Market Value at the time of loss.

EXCLUSIONS

The following exclusions apply to Stamps and Coin Collections:

! theft from any unattended automobile (unless shipped as registered mail)

! loss to property not part of a Stamp or Coin Collection

! loss to property in the custody of transport companies

! damage from being handled or worked on

! mysterious disappearance unless the item is scheduled or specifically insured, or is mounted in a volume and the page to which it is attached is also lost

! transfer of colors, inherent defect, dampness, extremes of temperature, or depreciation

! damage from fading, creasing, denting, scratching, tearing or thinning.

CHAPTER 3 – THE PERSONAL ARTICLES FLOATER

CHAPTER 3 QUESTIONS

1. How many classes of Personal Property are covered by the Personal Articles Floater (PFA)?

a. 6
b. 10
c. 5
d. none

2. What types of jewelry may be insured?

a. all
b. diamond studded only
c. only gold chains
d. none of the above

3. When insuring cameras, what must be done?

a. camera must have been produced in the U.S.
b. item must be described and valued
c. camera must only be single lensed
d. all of the above

4. The limit of coverage for Fine Arts is?

a. 10% of the total insurance
b. 15% of the total insurance
c. 25% of the total insurance
d. 30% of the total insurance

5. If a loss occurs to a scheduled item, the amount paid is the lowest of ... ?

a. the amount for which the property could reasonably be expected to be repaired/ replaced
b. the Actual Cash Value
c. the amount of the insurance
d. all of the above

answers

1. d
2. a
3. b
4. c
5. d

CHAPTER 4 – PERSONAL PROPERTY FLOATER

INTRODUCTION
The Personal Property Floater (PPF) provides an insured with extensive coverage on Unscheduled Personal Property. Usually the property is kept at the insured=s property but there is Worldwide Coverage when the property is temporarily away from the insured=s residence. The insured property is insured on a *Risk of Direct Physical Loss ("All-Risks") Basis.*

PERSONAL PROPERTY THAT CAN BE COVERED

There are 13 classes of Unscheduled Personal Property that the Personal Property Floater may insure. Keep in mind that separate amount of insurance will be applied to each of the following classes:

1. silverware, goldware and pewterware
2. clothing
3. rugs and draperies
4. musical instruments and electronic equipment
5. paintings and other art objects
6. china and glassware
7. cameras and photographic equipment
8. guns and other sports equipment
9. major appliances
10. bedding and linens
11. furniture
12. all other Personal Property and professional books and equipment while in the residence
13. building additions and alterations

CHAPTER 4 – PERSONAL PROPERTY FLOATER

It is important to keep in mind that the total amount of insurance in each category is the maximum limit of recovery for any single loss to property in that particular category. The total amount for all 13 categories is the Total Policy Limit. A $100 deductible applies to each loss. Obviously, a higher deductible is also available with a corresponding reduction in premium.

THE TREATMENT OF NEWLY ACQUIRED PROPERTY

Newly acquired property is automatically covered up to 10% of the total amount of insurance or $2,500, whichever is lower. The insurance on newly acquired property can be applied to any of the 13 classes. Keep in mind that the total amount of insurance is not increased.

As to property located at a newly acquired principal residence, coverage is for 30 days from the time the property is moved there.

PROPERTY NOT COVERED

The PPF does not cover the following types of Personal Property:

! animals, fish or birds

! boats, aircraft, trailers and campers

! motor vehicles (including motorcycles and motorized bicycles) designed for transportation or recreational use

! equipment and furnishings for the above vehicles unless they are removed from the vehicle and are at the insured=s residence

! owned property pertaining to a business, profession, or occupation (however, professional books, instruments and equipment are covered while in the insured=s residence)

! property normally kept other than at the insured=s residence throughout the year.

The PPF also has specific limits on certain types of property. There is a $100 limit on money, a $500 limit on securities, notes, stamps, passports, tickets and similar property; and a $500 limit on jewelry, watches and furs.

EXCLUSIONS

Losses caused by the following are excluded:

! types of water damage excluded elsewhere in the policy

! acts or decisions of any person, group, organization or governmental body

! any work on covered property (other than furs, watches and jewelry)

! animals owned or kept by the insured

! dampness or extreme changes of temperature (except if caused by rain, snow, sleet, hail or bursting of pipes or apparatus)

! wear and tear, deterioration, or inherent vice

! mechanical or structural breakdown (except by fire)

! marring or scratching of property, breakage of eye glasses, glassware and other fragile articles (but not if the loss is caused by fire, lightning, theft, vandalism or malicious mischief, and several other causes of loss specifically named in the policy)

! insects or vermin

CHAPTER 4 – PERSONAL PROPERTY FLOATER

CHAPTER 4 QUESTIONS

1. The Personal Property Floater provides an insured with coverage on?

a. Scheduled Personal Property
b. Unscheduled Personal Property
c. both a & b
d. neither a or b

2. How many classes of Personal Property could be covered under the PPF?

a. 9
b. 10
c. 13
d. 20

3. Newly acquired property is usually covered when?

a. automatically
b. after 5 days
c. after 15 days
d. after 30 days

4. What property is <u>not</u> covered under the PPF?

a. animals
b. fish
c. birds
d. all of the above

5. How much deductible is applied to each loss in the PPF?

a. $25
b. none
c. $100
d. $50

answers

1. b
2. c
3. a
4. d
5. c

CHAPTER 5 – PERSONAL EFFECTS FLOATER

INTRODUCTION

The Personal Effects Floater (PEF) was designed for use by tourists who wish coverage on their personal articles while traveling. The Personal Effects Floater provides "All Risks" Coverage on the Personal Property of tourists and travelers anywhere in the world, but only while the covered property is not on the residence premises. Coverage will apply to the named insured, his/her spouse and any unmarried children who permanently reside with the named insured.

COVERAGE OF PERSONAL EFFECTS

Personal Effects refer to Personal Property normally worn or carried by an individual. The Personal Effects Floater is designed to cover the insured=s Personal Effects, such as cameras, sports equipment, luggage and clothes, while the insured is traveling or on vacation.

PROPERTY NOT COVERED

The PEF will exclude coverage for certain types of property even though the article may be carried or used by travelers. The following property is excluded:

! contact lenses and artificial teeth or limbs

! merchandise for sale or exhibition, theatrical property, and property specifically insured

! automobiles, motorcycles, bicycles, boats, other conveyances and their accessories

! accounts, bills, currency, deeds, evidences of debt and letters of credit

! passports, documents, money, notes, securities and transportation of other tickets

! household furniture and animals

! automobile equipment, salesperson=s samples, physician=s and surgeon=s equipment

In addition to the requirement that the property must be worn or used by the insured, the article must belong to the insured. If the insured rents or borrows property, the coverage does not apply.

"ALL-RISKS" COVERAGE

Personal Effects are covered on an "All-Risks" Basis. Therefore, all Direct Physical Losses are covered except for certain losses that are specifically excluded. The following losses are excluded:

! breakage of brittle articles unless caused by a theft, fire, or accident to a conveyance

! damage to Personal Effects from wear and tear, gradual deterioration, insects, vermin, inherent vice, or any damage while the property is being worked on.

OTHER EXCLUSIONS

The Personal Effects Floater has the following limitations on coverage:

! Personal Effects in the custody of students while at school are not covered except for loss by fire.

! Property storage is not covered. There is coverage of the property at points and places enroute during travel. If the insured stores his/her luggage in a locker at an airport, train stations or bus terminal while out on a sightseeing tour, the exclusion would not apply.

! Personal Effects are not covered while on the named insured=s residence premises.

LIMITATIONS ON CERTAIN PERSONAL EFFECTS

Furs, watches and jewelry are subject to certain special limits. Coverage on any single article is limited to 10% of the total amount of insurance with a maximum of $100.

Theft of Personal Effects from an unattended automobile is also excluded. There would be coverage, however, if the automobile is locked and there are visible marks of forcible entry. The amount paid is limited to a maximum of 10% of the total amount of insurance or $250, whichever is lower.

CHAPTER 5 – PERSONAL EFFECTS FLOATER

CHAPTER 5 - QUESTIONS

1. **The Personal Effects Floater (PEF) was basically designed for:**

   a. business
   b. restaurants
   c. taxi cab companies
   d. tourists

2. **Personal Effects refer to Personal Property ...**

   a. "purchased by an individual"
   b. "owned by a business"
   c. "worn by an individual"
   d. none of the above

3. **What property would be excluded under the PEF?**

   a. contact lenses
   b. automobiles
   c. passports
   d. all of the above

4. **Personal Effects are covered on a _____ Basis.**

   a. Named Peril
   b. "All-Risk"
   c. Unscheduled
   d. Scheduled

5. **Which Personal Effects are subject to Special Limits?**

   a. furs
   b. watches
   c. jewelry
   d. all of the above

answers

1. d
2. c
3. d
4. b
5. d

CHAPTER 6 – TO SCHEDULE OR NOT TO SCHEDULE

INTRODUCTION

When discussing Personal Inland Marine Floaters, the question arises - when is it economical to schedule property?

When we discuss “scheduling”, we are referring to describing and listing separately on another policy or on an Endorsement particular items that must be listed separately.

ENDORSEMENT

The Scheduled Personal Property Endorsement is used to provide coverage for Risks of Direct Loss for certain classes of Scheduled Property. Scheduled Coverage may be provided for jewelry, furs, cameras, musical instruments, silverware, golfing equipment, fine arts, postage stamps, rare and current coins. The rating for this coverage is based on Standard Inland Marine Rating Procedures. A different rate per $100 of value applies to each category of property. The question will usually be asked - “Doesn’t my Homeowners Policy cover it? Why do I need a separate endorsement"? Thus, the question remains: “When should Personal Property be scheduled'?

An Unendorsed Homeowners Policy covers Unscheduled Personal Property on a Named Perils Basis, however, many clients own valuable Personal Property that should be scheduled and specifically insured under a Floater Policy. It is generally agreed that, in addition to <u>High Value</u> Property such as diamond rings and fur coats, the following types of Personal Property may be appropriate for Scheduled Coverage:

1. ***<u>Unique Objects</u>***. This includes works of art, rare antiques, paintings and collections of unusual property, such as a valuable Stamp or Rare Coin Collection. The value of the property should be established in advance to avoid the problem of proving its value after the loss occurs.

2. ***<u>Business or Professional Equipment</u>*** - The Homeowners Policy provides only limited coverage for Business or Professional Equipment. Business or Professional Property is covered only for a maximum of $2,500 on the residence premises and $250 away from the residence premises. Business and professional property can be more adequately insured by scheduling the property with a stated amount of insurance shown for it.

3. ***<u>Portable Property</u>*** - Certain types of Portable Property (cameras and equipment, musical instruments, or sports equipment) can be scheduled and specifically insured under a Floater Policy.

4. ***Fragile Articles*** - Certain Fragile Articles with high value could be scheduled and specifically insured, such as glassware, statuary, scientific instruments, typewriters, or home computers.

BE CAREFUL WHEN SCHEDULING PERSONAL PROPERTY!!

Standard Homeowners Policies exclude Personal Property that is separately described and specifically insured by any other insurance!!

The amount of insurance under a Floater Policy must be sufficient to pay for losses to Covered Property in full, since the exclusion rules out any contribution by the Homeowners Policy. In addition, Unscheduled Personal Property under the Homeowners Policy may be insured on a *Replacement Cost Basis* by adding the Homeowners HO-04-90 Endorsement. Replacement Cost Insurance on Personal Property that is scheduled and specifically insured generally is available only under the HO-04-61 scheduled Personal Property Endorsement when the underlying Homeowners Policy also is endorsed to provide Replacement Cost Coverage. Thus, the advantage of Risks of Direct Loss Coverage under the Personal Property Floaters must be carefully weighed against the possibility of being underinsured at the time of loss.

COMPARISON OF THE PERSONAL PROPERTY FLOATER AND THE HO-3 POLICY

The question often arises - Why do I need a Personal Property Floater when we have a Homeowner=s Policy (specifically a HO-3 Policy)? We have made the following comparison, while focusing on 6 specific areas of coverage to help determine the feasibility of one coverage over another.

1. With a Personal Property Floater, Risks of Direct Physical Loss Coverage are on Unscheduled Personal Property, while under a HO-3 Policy there is Named-Perils Coverage on Unscheduled Personal Property.

2. Under the Personal Property Floater there is a $500 limit on securities, evidences of debt, valuable papers, passports, tickets and stamp collection. Under the HO-3, the limit is $1,000 for such coverage.

3. With the Personal Property Floater, there is a $500 aggregate limit on watches, jewelry and furs. With a HO-3 Policy, the aggregate limit is $1,000.

4. Under Personal Property Floaters, there is an exclusion on property located at other than the insured=s residence throughout the year. HO-3 has no such exclusion.

5. With a Personal Property Floater, there are 13 categories of Property, with a specific limit of insurance for each category. The HO-3 has no such provision.

6. With a Personal Property Floater, there is a $100 limit on money while the HO-3 has a $200 limit.

<u>COMPARISON OF THE PERSONAL EFFECTS FLOATER AND THE HOMEOWNER=S POLICY</u>

A comparison of both coverages revolves around 8 different areas:

1. Under the PEF, "All-Risks" Coverage is included while the HO-3 has Named-Perils Coverage.

2. The PEF has coverage only while Personal Effects are off the residence premises while the HO-3 has coverage on and off residence premises.

3. The PEF has no coverage on property of students while at school (except for fire) while the HO-3 covers the risk.

4. With the PEF, only Personal Effects are covered which is narrow, but with the HO-3 Unscheduled Personal Property is covered which offers broader coverage.

5. With the PEF, there is no coverage on passports, tickets, securities, or valuable paper. The HO-3 has a $1,000 limit.

6. Under the PEF there is no coverage on money while the HO-3 has a $200 limit.

7. With the PEF there is no coverage for borrowed property while the HO-3 offers coverage for Borrowed Personal Property.

8. The PEF has a limit of 10% of the amount of insurance up to $100 on any single article. The HO-3 will cover jewelry, watches and fur up to $1,000.

CHAPTER 6 – TO SCHEDULE OR NOT TO SCHEDULE

<u>CHAPTER 6 - QUESTIONS</u>

1. **What endorsement is used to provide for Risks of Direct Loss for certain classes of scheduled property?**

   a. All Inclusive Endorsement
   b. Scheduled Personal Property Endorsement
   c. Unscheduled Personal Property Endorsement
   d. none of the above

2. **An Unendorsed Homeowners Policy covers Unscheduled Personal Property on a/an _____ Basis?**

   a. Named
   b. "All-Risks"
   c. Scheduled
   d. Unscheduled

3. **Under a Personal Property Floater, Risks of Physical Loss Coverage are on _________ Personal Property?**

   a. "All-Risk"
   b. Scheduled
   c. Unscheduled
   d. Limited

4. **The PEF covers property of students while at school?**

   a. fire only
   b. does
   c. at times
   d. none of the above

5. **Which policy offers coverage for borrowed property?**

   a. PEF
   b. HO-3
   c. neither a or b
   d. both a & b

answers

1. b
2. a
3. c
4. a
5. b

CHAPTER 7 – WATERCRAFT INSURANCE

INTRODUCTION

Recreational Watercrafts include:

! yachts
! houseboats
! speedboats
! sailboats
! outboard and inboard motorboats
! canoes
! rowboats
! dinghies

We will touch on the Loss Exposures from the ownership and operation of watercraft and insurance contracts for insuring these recreational watercraft.

HULL AND TRAILER LOSS EXPOSURES

Watercraft and its equipment, furnishings and trailers are all exposed to a wide array of physical damage and theft losses. Some **Examples** would be:

! *an explosion causes serious damage to a boat*

! *a storm causes a boat to sink*

! *a boat trailer is stolen while a boat is out on a lake*

! *an outboard motor falls into a lake*

! *a speedboat collides with another boat*

! *a strong wind overturns a sailboat*

! *a houseboat hits a sandbar*

THE HOMEOWNERS POLICY AND PHYSICAL DAMAGE COVERAGE

There is coverage for physical damage for Watercraft and Trailers under the Homeowners Policy but it is limited. The 4 limitations are:

1. watercraft is covered only for a limited number of named perils. Risks of Direct Loss (All-Risks) Coverage are <u>not</u> available.

CHAPTER 7 – WATERCRAFT INSURANCE

2. theft of watercraft, trailers, furnishings, equipment and outboard motors away from the residence is excluded.

3. coverage on watercraft including trailers, furnishings and equipment is limited to a maximum of $1,000.

4. Direct Loss to watercraft, trailers, furnishings, equipment and outboard motors from windstorm or hail is covered only if the property is inside a fully enclosed building.

Obviously, boat owners will wish to insure their boats under other insurance policies since these limitations exist. A need for more comprehensive protection against a Direct Physical Damage or theft loss is required.

PHYSICAL DAMAGE COVERAGE UNDER THE PERSONAL AUTO POLICY

Under the Personal Auto Policy, only a boat trailer can be insured for Physical Damage Loss. The trailer must be described in the declaration.

LIABILITY LOSS EXPOSURES

Owners and operators of watercraft face numerous Liability Loss Exposures - a few **Examples**:

- *A boat operator forgets to give a child a life preserver and the child falls overboard and drowns.*

- *A speedboat creates a huge wave and causes another boat to overturn.*

- *A boat collides with another boat and several occupants are critically injured.*

- *A water skier is injured due to a high rate of speed.*

- *A boat runs into and injures several swimmers. Due to the various limitations under the Homeowners Policy, boat owners desire more Comprehensive Coverage. Insurance companies have developed streamlined contracts for boat owners.*

These contracts include:

- Outboard Motor and Boat Insurance
- Special Watercraft Policies
- Personal Yacht Insurance

CHAPTER 7 – WATERCRAFT INSURANCE

__OUTBOARD MOTOR AND BOAT INSURANCE__ **-** This coverage is basically designed for those boat owners who already have adequate Liability Insurance and desire to broaden the Physical Damage Coverage on the boat. The coverage is usually provided by an Inland Marine Floater. There are many Inland Floaters but there are common features such as Covered Property, Covered Perils and Exclusions.

__Covered Property__ - the Floater can be written to cover the hull, motor, boat equipment and its accessories, boat carrier and trailer. The coverage is written on an Actual Cash Value Basis and usually contains deductibles ranging from $25 to $250 or more.

__Covered Perils__ - the Floater in this area is extremely flexible as it can be written to cover Named Perils or Risk of Direct Loss (better known as "All-Risks" Coverage). The majority of floaters are written on an "All-Risks" Basis and will cover all Direct Physical Losses except those that are excluded.

The coverage will __not__ include Liability Insurance for bodily injury, loss of life, or illness. It is always assumed that the insured will have adequate Personal Liability Insurance to cover third-party claims. The Floater may be used to provide Collision Damage Liability Insurance that will protect the insured from a claim for property damage from the owner of another boat if the insured=s boat collided with another boat while afloat.

__Exclusions__ - The Exclusions for this type of insurance will vary according to the insurer. We have listed 3 common exclusions:

1. ***__Business Pursuits__*** - there is no coverage if the boat is used as a public vessel for carrying passengers for compensation. Also, there would be no coverage if the boat is rented to others or if the covered property is being operated in any official race or speed contest. The Policy is meant to cover the boat for pleasure purposes and obviously not for business purposes.

2. ***__Repair or Services__*** - Loss or damage from refinishing, renovating, or repair is __not__ covered. The person repairing the boat or equipment should be responsible for any damage.

3. ***__General Risks of Direct Loss__*** - there is no coverage for loss or damage from wear and tear, gradual deterioration, vermin and marine life, rust and corrosion, inherent vice, latent defect, mechanical breakdown and extremes of temperature.

__WATERCRAFT PACKAGE POLICIES__ **-** Insurers have developed a unique Boat Owner Package Policy that combines Physical Damage, Liability and Medical Payments Coverage in an All-In-One Policy. Once again, these policies are not uniform throughout the industry but do share some common features.

CHAPTER 7 – WATERCRAFT INSURANCE

Physical Damage Coverage - most Boat Owners Package Policies are written on an All-Risks Basis. Under the Physical Damage Insuring Agreement, the insurer agrees to pay for a Direct Physical Loss to Covered Property. All losses are covered except those that are excluded. The Physical Damage Insurance covers the boat, equipment, accessories, motor and trailer. So, if the boat collides with another boat there is coverage. Also, if the boat is stolen there would be coverage.

Liability Coverage - the Boat Owners Package Policy also includes Liability Coverage that covers the insured for Bodily Injury and Property Damage Liability that occurs from the ownership or operation of the boat. **Example**: *if the operator of the boat accidentally damages another boat or injures some swimmers, there would be protection.*

Medical Payments Coverage - this coverage is quite similar to the Medical Payments Coverage in the Personal Auto Policy. Medical Payments Coverage pays the necessary medical expenses incurred or medically attributable within 1-3 years from the date of a watercraft accident that causes bodily injury to a covered person. A covered person is defined as *the insured or a family member, or any person occupying the covered boat.* Medical expenses are the reasonable charges for medical, surgical, x-ray, dentist, ambulance, hospital, professional nursing and funeral services. Prosthetic devices would also be covered. **Example:** *if occupants in a covered boat are injured in a collision with another boat, the medical expenses are paid up to the Medical Payments limits of the policy.*

Other Coverages - that may be found in the Boat Owners Package Policy would include the cost of removing a wrecked or sunken vessel following a loss; life salvage, which is compensation to other people who act to save human life because of an accident on the water, and Uninsured Boaters Coverage.

Exclusions - The following Exclusions are common to the Boat Owners Package Policy:

- Portable electronic photographic or water sports equipment, or fishing gear. Remember cameras, fuel, portable radios and sports equipment would not be covered.

- using the covered property in any official race or speed test. (Sailboats would not be included in this exclusion.)

- All-Risks Exclusions for wear and tear, inherent vice, latent defect, mechanical breakdown, war and nuclear hazard.

- damage caused by any repair or restoration process

! carrying persons or property for a fee, or renting Covered Property to others.

! infidelity of persons to whom the Covered Property is entrusted (except carriers for hire)

Concerning Liability and Medical Expense Coverages, the following Exclusions are commonly found:

! using watercraft in any official race or speed test

! intentional injury or damage

! losses covered by Workers Compensation or similar law or by a Nuclear Energy Liability Policy

! Contractual Liability

! renting the watercraft to others or carrying persons or property for a fee

! injury to an employee when their work involves operation or maintenance of the watercraft

PERSONAL YACHT INSURANCE

Personal Yacht Insurance refers to larger boats such as yachts, inboard motorboats, cabin cruisers and sailboats more than 26 feet in length. The following Coverages are available:

Hull Insurance - this refers to Physical Damage Insurance on the boat. This coverage applies to the boat, sails, tackle, machinery, furniture and other equipment. This coverage may be written on a Named Perils Basis or an All-Risks Basis. A deductible will apply to all Physical Damage Losses.

Protection and Indemnity Coverage - This coverage is a form of Marine Liability Insurance. The owner of the boat is covered for Bodily Injury and Property Damage on an Indemnity Basis. **Example:** *if the boat owner falls asleep at the wheel and negligently crashes into a marina and injures a number of people, the loss to the dock and any Bodily Injury Claims would be covered.*

Optional Coverages - There are several optional coverages that are available that can be added to the Personal Yacht Policy:

! Boat Trailer Insurance

- Water Skiing Clause that provides Liability Protection if the boat is used for water skiing

- Land Transportation Insurance that extends the insurance to cover the insured vessel while being transported by land conveyance.

- Medical Payments Insurance for covered persons

- possible liability of the insured to maritime workers injured in the course of employment who are covered under the United States Longshore and Harbors Workers Compensation Act.

WARRANTIES

Personal Yacht Insurance contains several warranties (better known as promises). If a warranty is violated, higher premiums will be charged or the coverages will not apply. The major warranties are:

- ***Lay-Up Warranty*** - the insured promises when the vessel will not be in operation during certain periods, such as winter months.

- ***Navigational Limits*** - the vessel will be used only in the territorial waters described in the declarations.

- ***Seaworthiness*** - insured warrants that the vessel is in seaworthy condition.

- ***Private Pleasure Warranty*** - the insured promises that the vessel will be used only for Private Pleasure purposes and will not be hired or chartered unless the insurance company approves.

UNINSURED BOATERS COVERAGE

Uninsured Boaters Coverage is quite similar to the Uninsured Motorists Coverage in the Personal Auto Policy. The insurer agrees to pay the damages that a covered person is legally entitled to recover from an uninsured boat owner or operator because of bodily injury the covered person sustained on a boating accident. However, the Uninsured Owner or "Operators Liability" for the damage must arise out of the ownership, maintenance or use of a watercraft.

The Uninsured Boaters Coverage contains several exclusions. Bodily injuries from the following are excluded:

- using or occupying watercraft without reasonable belief that one is entitled to do so

! if the Bodily Injury Claim is settled without the insurer=s consent

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! while occupying or struck by a watercraft owned by the insured or by any family member not insured under the policy

! when occupying a covered watercraft when it is being used to carry persons or property for a fee or is rented to others. There is an arbitration provision. If there is disagreement about whether a covered person is legally entitled to recover damages from the uninsured boat owner or on the amount of damages, then arbitration is used. Each party selects an arbitrator. If they cannot agree within 30 days, a Judge in a Court of Law appoints the arbitrator. A decision by any 2 of the 3 parties is binding on all.

CHAPTER 7 – WATERCRAFT INSURANCE

CHAPTER 7 QUESTIONS

1. Recreational watercraft would include?

a. canoes
b. rowboats
c. dinghies
d. all of the above

2. The Homeowners Policy does have coverage for _______ damage for watercrafts or trailers:

a. Liability
b. Cargo
c. Physical
d. Hull

3. The Personal Auto Policy will cover a boat trailer for _________ damage:

a. Liability
b. Cargo
c. Physical
d. Hull

4. This coverage is designed for boat owners who already have adequate Liability Insurance?

a. Outboard Motor & Boat Insurance
b. Hull Insurance
c. Cargo Insurance
d. All of the above

5. These policies combine Physical Damage Liability and Medical Payments Coverage in an All-In-One Policy:

a. Personal Yacht Policy
b. Hull Insurance
c. Protection & Indemnity Policies
d. Watercraft Package Policy

answers

1. d
2. c
3. c
4. a
5. d

CHAPTER 8 – COMMERCIAL INLAND MARINE COVERAGES BASIC AND MISCELLANEOUS

INTRODUCTION

Just as the Personal Inland Marine Policy has many uses in the insurance marketplace, the need for Commercial Inland Marine Coverages is just as broad. In Chapter Eight we will discuss the Basic Coverages of the Commercial Inland Marine Policy and focus on the following:

1. What is covered?

2. Hazards that are covered?

3. How much coverage is provided?

4. Loss conditions that must be met before coverage takes effect, and

5. other miscellaneous conditions.

WHAT IS COVERED?

Basically, 12 classes of property are covered. They are:

1. Accounts Receivables
2. Camera Dealers
3. Commercial Articles
4. Equipment Dealers
5. Jewelers Block
6. Musical Instrument Dealers
7. Physicians and Surgeons
8. Theatrical Property
9. Valuable Papers

10.* Film
11.* Floor Plan
12.* Mail

*These are written on a Reporting Basis

HAZARDS THAT ARE COVERED

Commercial Inland Marine offers coverage against Direct Physical Loss. The policy does not specify individual perils. There are some exclusions, which include the following:

CHAPTER 8 – COMMERCIAL INLAND MARINE COVERAGES BASIS AND MISCELLANEOUS

- Concealment
- Misrepresentation
- Fraud

The insurer will void the entire coverage part if it is discovered that the insured concealed or misrepresented a material fact.

COVERAGE PROVIDED

Coverage provided actually depends on 6 key aspects of the coverage. The following must be answered before the insurer renders a decision on the total amount of the coverage:

1. ***Is there insurance under two or more coverage parts?*** In reality, if two or more of the policy's coverages apply to the same loss, the insurer will not pay more than the amount of the loss.

2. ***Is there other insurance?*** If the insured happens to carry other insurance, which would cover the same loss, the insurer will pay only the excess over the amount that is received from the other insurance.

3. ***Is there a pair or set involved in the loss?*** If a pair or set is lost, the insurer has the right to repair or replace any part to restore the pair or set to its value before the loss. The insurer may pay the difference between the value of the pair or set before and after the loss.

4. ***Parts Loss*** - If the insured is just missing a part or parts, the company will pay only for the value of the lost or damaged part.

5. ***Is there any Salvage Value?*** If the insurer recovers or salvages any part of an incurred loss, the insurer is entitled to this value up to the value that it paid out to the insured.

6. ***What is reinstatement after the loss?*** This appears to be the most confusing aspect of Total Coverage. It is best to use an example to illustrate this factor. **Example:** *Mary, the insured, schedules 8 individual diamonds, each worth $3,000 under a Commercial Inland Marine Form. The premium charge for each diamond is $300 per year. The policy coverage began on January 1st. On July 1st, one of the diamonds is stolen and Mary is paid $3,000 for the loss. Mary is now entitled to a refund of $150 (half of the premium paid for coverage on the stolen item), since she only had 6 months coverage on that particular diamond before the theft.*

7. ***Transfer of Rights of Recovery Against Others*** **-** If the insured who has suffered a loss has any Rights to Recovery damages for the loss from any other party, these specific rights are automatically transferred to the insurer.

LOSS CONDITIONS

Although the insured may indeed have a loss, there are duties that must be followed before a check is sent. We have divided the conditions into 2 groups: Basic and Miscellaneous. There are 10 Basic Conditions and 5 Miscellaneous.

Basic Loss Conditions

1. ***Cooperation with the Company*** - Obviously the insured must cooperate with the insurer during any investigation and settlement of any loss under the policy. The insured should not make any statements or assume any obligation. Also, the insured should not admit any liability for loss in which the insurer may be liable.

2. ***Notification of Police*** - If a loss does occur, the insured must notify the police, especially if a law may have been broken.

3. ***Notice of Loss*** - As in most other insurance policies, the insured must give prompt notice of any loss. This notice should include a description of the property involved in the loss and a description of the Loss Occurrence.

4. ***Protect the Property*** - The insured must take measures to protect any property from further damage. Also, if possible, the insured must separate the undamaged property from the damaged property. The insured is also obligated to prepare the damaged property for examination by the insured and to keep a record of expenses for consideration in settlement of the loss.

5. ***Examination of Books and Records*** - Insurer has every right to examine the books and records of the insured within 3 years.

6. ***Inspection of the Property*** - The insured is obligated to permit the insurer to inspect the property and any other records, which impact on the loss.

7. ***Sworn Statement of Loss*** - Within 60 days after the insurer requests a statement from insured and provides the insurer with the necessary forms, the insured is obligated to complete the forms and send the company a signed sworn statement with the information the insurer requests to settle the loss.

8. ***Legal Action Against Insurer*** - This condition states that no action may be brought against the insurer before there has been compliance with the terms of the policy. Also, such action may not take place after 2 years from the date the insured had any knowledge of the loss.

9. ***Loss Payable*** - The insurer must provide that the loss will be paid within 30 days after determination.

MISCELLANEOUS CONDITIONS

1. ***No Abandonment*** - There should not be any abandonment of any property by the insurer. The insurer basically is saying it will not take over or possess any Abandoned Property.

2. ***Company=s Right To Defend*** - The insurer, at its own discretion, will provide legal defense for the insured if the need arises. The insurer will bear all the costs of such a defense and these costs will not lower the Limit of Liability that is available under the policy.

3. ***Cancellation*** - The insurer is obligated to 2 specific deadlines. The first is for nonpayment of premiums and states that if the insured fails to pay a premium, the insurer must give 10 days notice before cancellation. If the insurer wishes to cancel the policy for any reason, other than nonpayment, then 30 days notice must be given.

4. ***Adjustment With Owner*** - If a loss occurs to another=s property (not the insured) the insurer has every right to settle the loss with the owner of the property.

5. ***No Benefit to Bailee*** **-** Only the insured may benefit from the insurance. If another person or organization has custody of the property, they will not be entitled to any settlement.

CHAPTER 8 – COMMERCIAL INLAND MARINE COVERAGES BASIC AND MISCELLANEOUS

CHAPTER 8 - QUESTIONS

1. How many classes of property are covered in a Commercial Inland Policy?

a. 9
b. 12
c. 13
d. 5

2. Commercial Inland Marine Policies offer coverage against:

a. Direct Physical Loss
b. all losses
c. Named Perils
d. all of the above

3. An exclusion under the Commercial Inland Marine Policy would be:

a. Concealment
b. Misrepresentation
c. Fraud
d. all of the above

4. A Miscellaneous Condition in a Commercial Marine Policy would be?

a. Loss Payable
b. Legal Action against Insurer
c. No Abandonment
d. Inspection of the Property

5. An insurer may cancel coverage for the following reason(s):

a. non-payment of premium
b. adjustment with owner
c. adverse selection problem
d. all of the above

answers

1. b
2. a
3. d
4. c
5. a

CHAPTER 9 – VARIOUS COMMERCIAL INLAND MARINE FORMS

INTRODUCTION

Our discussion in this Chapter will focus on the following forms:

1. Physicians and Surgeons Equipment Forms

2. Equipment Dealers Coverage Form

3. Camera and Musical Instrument Dealers Coverage Form

4. Commercial Articles Coverage Form

5. Valuable Papers and Records Form

6. Accounts Receivable Coverage Form

As in the previous Chapter, we discussed the above forms and narrow our discussion to the following areas:

! property that is covered
! property not covered
! hazards that are covered
! hazards that are not covered
! the amount of coverage
! where applicable, the insured=s duties

PHYSICIAN=S AND SURGEON=S EQUIPMENT COVERAGE POLICY

This policy covers various Dental and Medical Equipment. Also, books and supplies are covered. The policy will also cover office equipment, furniture and fixtures at the Medical or Dental office. An interesting provision of this policy is that even if the insured is not the owner of the building where the office is located, the policy would cover the insured=s interest in improvements which are either alterations, installations or additions to the premises that are made at the insureds expense. Obviously, these improvements cannot be moved.

Another coverage would be theft damage to the building. The policy will pay for any damage caused directly by theft to any part of the building containing any Covered Property or equipment within the building used to maintain or help service the building. The stipulation is that the insured must own the building or is legally responsible for it. Exclusions to this coverage would be damage by fire, damage to glass, damage to lettering or artwork on the glass.

The policy also covers Collapse. Direct Loss that results from Collapse of all or part of a building from any of the following listed perils:

! fire, lightning, smoke

! explosion

! windstorm, hail

! weight of snow, ice or sleet, weight of rain that collects on a roof, weight of people or Personal Property.

! vehicles, aircraft and falling objects

! riot, civil commotion, vandalism, breakage of glass

! hidden decay, hidden insect or vermin damage

! use of defective materials or methods in construction, remodeling or renovation if the collapse should occur during the course of the work.

The property that is not covered would be structural glass, contraband or property in the course of illegal transportation or trade.

There are 10 hazards that are not covered:

1. ***Governmental Action*** - the policy will not apply to loss caused by seizure or destruction of property by order of any government authority.

2. ***War, Military Action*** - there is no coverage for any losses due to war, whether declared or not. Also considered under this exclusion would be any warlike action, insurrection, rebellion or revolution.

3. ***Nuclear Hazard*** - there would be no coverage for loss resulting from nuclear reaction or radiation, or from radioactive contamination or any related incidents.

4. ***Acts, Decisions*** - the policy does not cover Acts or Decisions, or any failure to Act or Decide of any person, group, organization or governmental body.

5. ***Faulty or Defective Work*** - there is no coverage for the following:

- faulty, inadequate or defective planning
- faulty zoning, development, surveying
- defective design, specifications and workmanship
- faulty remodeling, grading, compaction
- faulty materials used in repairs, construction, renovation, remodeling or maintenance

6. ***Weather Conditions*** - the policy will not pay for loss by foul weather conditions.

7. ***Marring and Scratching*** - there is no coverage for any loss by marring, scratching, and exposure to light, breakage of tubes, bulbs, lamps or articles made largely of glass. Remember, the policy will pay for such losses if caused directly by fire, lightning, explosion, windstorm, vandalism, rioter, aircraft, strikers, theft or attempted theft or by accident to the vehicle carrying the property.

8. ***Processing*** - no coverage is provided for damage due to processing or work on the property unless fire or explosion ensues. The loss would be covered if these perils were insured under the coverage form.

9. ***Fraudulent Scheme*** - the policy will not cover any property voluntarily given by the insured to anyone entrusted with the property if the insured was induced to do so by any fraudulent scheme, trick, false pretense, device or unauthorized instructions to transfer property to any person or place.

10. ***Wear and Tear*** - the policy will not cover any loss due to Wear and Tear or any quality in the property that causes it to destroy itself.

The property will be valued at the lowest of 3 figures:

- the cost of replacing the property with substantially identical property
- Actual Cash Value
- the cost of restoring the property to its previous condition before the loss.

As to improvements, valuation is estimated by:

1. the percentage of the property=s original cost and the amount of time remaining on the n insured=s rental agreement bears to the period from the improvements date, or

2. the Actual Cash Value of the property at the time of the loss.

The property covered has an 80% Coinsurance Clause which simply means that the insurer will cover 80% of the covered loss. This way the insured shares in some portion of the loss.

The insured is also required to maintain the protective safeguards, which are in effect when the policy coverage begins. If the insured fails to comply with the requirement, the policy will be suspended until all protective safeguards are restored. Also, the protective devices must be maintained in working order at all times especially when the premises are closed for business.

EQUIPMENT DEALERS COVERAGE POLICY

This policy is used to protect the insured=s Stock- in-Trade that consists basically of mobile construction and agricultural equipment. Also, similar property that the insured is in charge of in his/her custody or control.

The policy also covers theft damage to building and collapse. Also any equipment used in the service of the building would be protected from theft damage.

There are 6 categories that are not covered by the policy. They are:

1. contraband

2. property this is leased, rented or sold

3. automobiles, motor trucks, motorcycles, aircraft or watercraft

4. property while in the course of manufacture

5. accounts, bills, currency, deeds, money, notes, securities and evidence of debt

6. furniture, fixtures, office supplies, improvements and betterments, machinery, tools, fittings, patterns, dies and molds.

The policy will cover Risks of Direct Loss but will not cover the following hazards:

! governmental action
! nuclear hazard

- war, military action
- wear and tear
- weather conditions
- fraudulent scheme
- electrical disturbances
- dishonest acts
- marring, scratching and breakage of glass
- water damage

The policy will pay 80% of the Covered Loss but there is a mandatory deductible that will range from $200 to $250. The deductible is not deducted from the Limit of Liability. When a loss exceeds the amount of the limit by the amount of the deductible the insured can now collect the full limit.

The insured must furnish a complete inventory of the damaged, destroyed and undamaged property, show in detail quantities, costs, Actual Cash Value and amount of loss claimed.

The insured must also protect the property from further loss by doing the following:

1. separate the damaged property from the undamaged

2. to give immediate written notice of loss to the company

3. to put it in the best possible order

4. to notify the police if a crime has been committed

CAMERA AND MUSICAL INSTRUMENT DEALERS COVERAGE POLICY

This policy covers what it says. Basically Stock- in-Trade that consists of cameras and musical instruments and related equipment and accessories. Also, the policy will cover all accessories and like property of others that the insured has in his/her custody or control.

The policy also covers any theft damage to buildings that contains Covered Property or equipment. The insured must either own the property or be legally responsible for it. Damage by fire, or damage to glass or lettering or artwork on the glass would be excluded.

Also covered would be property in the course of incidental manufacturing by a dealer. Labor and material associated with negatives, positives and prints would be covered. Collapse would also be covered.

CHAPTER 9 – VARIOUS COMMERCIAL INLAND MARINE FORMS

The policy will not cover 4 broad areas of property:

1. ***Structural Glass*** - there is coverage on buildings but not on structural glass.

2. ***Accounts, Bills, Currency*** - the policy does not cover accounts, bills, currency, deeds, evidence of debt, money, notes or securities.

3. ***Sold Property*** - there is absolutely no coverage on property, which has been sold and delivered to customers, including property, which has been sold under a Deferred Payment Agreement.

4. ***Office Furniture, Fixtures and Supplies*** - the policy does not cover any furniture, fixtures, office supplies and improvements. Also, molds, models, dies, tools, fittings and machinery are not covered.

Hazards that are not covered number 13:

! earthquake

! water damage

! marring, scratching, breakage of glass

! theft from unattended vehicle

! dishonest acts

! unexplained disappearance, inventory shortage

! damage due to processing

! electrical disturbance

! fraudulent scheme and unauthorized instructions

! weather conditions

! wear and tear

! government actions such as a nuclear hazard, war or military action

! delay or loss of market

How property is valued is important in the Camera and Musical Instrument Dealers Policy.

Unsold Property **-** valued at the lowest of the following:

a. cost of replacing the property with identical property
b. cost of restoring the property to its original condition
c. Actual Cash Value of the property

Property of Others - property of others in the insured=s care, custody or control will be valued at the amount for which the insured is liable. Also the value of labor and needed materials are added.

The Actual Cash Value, plus labor/materials, will be added. Whichever method is less than is the method that will be implemented by the insurer.

Sold Property - property that has been sold but not yet delivered will be valued at the insured=s net selling price after all allowances and discounts.

Negatives, Positives, Prints - are not included in Sold or Unsold Property but are valued at the cost of unexposed film. This will also include material and labor the insured has incurred.

The policy is also written with an 80% Coinsurance Clause.

It is the insured=s duty to maintain any protective safeguards, which were in effect at the location when the policy was issued. If not, the policy will be suspended until the protective safeguards are restored. The protective device must always be kept in working order when the premises are closed for business.

VALUABLE PAPERS AND RECORDS INSURANCE

This policy offers extensive coverage for the following:

! files
! deeds
! drawings
! mortgages

! abstracts
! books
! papers

! records
! other records which are critical to the continuation of the business.

The coverage is also extended to the property of others, which the insured has in his/her custody.

There are 6 areas that are not covered:

1. ***Data Processing Operations*** - programs or instructions used in the insured=s data processing operation would not be covered. Also, the material on which the data is recorded would not be covered.

2. ***Illegal Trade*** - contraband or property in the course of illegal transportation or trade would be excluded.

3. ***Irreplaceable Property*** - if the property that is damaged cannot be replaced with like property, then there is no coverage. In order for Irreplaceable Property to be recovered, it must be specifically declared and described in the Policy Declarations.

4. ***Money and Securities*** - these classes of property are not covered.

5. ***Storage*** - no coverage is provided for storage that is away from the premises.

6. ***Samples and Property for Delivery*** - the policy will not cover samples or property that is being held for delivery after the sale.

This policy is covered for "All-Risks". Of course, the policy is subject to the stated exclusions in the policy.

There are 7 perils that are not covered:

1. ***Libraries Endorsement*** - usually libraries will purchase this type of policy but a special endorsement is usually attached. The Endorsement excludes loss due to failure to return borrowed property, vandalism or mutilation by anyone using the property on the premises. Also, the policy will exclude unexplained disappearance or loss that depends on an audit of records to actually prove that a loss did occur.

2. ***Wear, Tear. Inherent Vice*** - these vices are simply not covered.

3. ***Government Authority*** - interestingly, the policy would cover seizure of property by any government authority except if it were taken to prevent the spread of fire, which would be covered anyway under the policy.

4. ***War and Nuclear Perils*** - this is a common exclusion under property policies.

5. ***Dishonest Acts*** - the policy will not cover Dishonest Acts by the insured or anyone with an interest in the property, employees or anyone entrusted with the property.

6. ***Collapse*** - There is no coverage for loss due to collapse except for direct loss of any part of or whole building caused by:

fire	riot
lightning	civil commotion
windstorm	vandalism
hail	glass breakage
explosion	falling objects
smoke	weight of ice, snow
aircraft	hidden decay
vehicles	weight of people
weight of property	weight of rain

use of defective materials/methods in construction or renovation if it occurs during these operations

7. ***Processing Errors*** - Errors or omissions in processing or copying, with the exception of direct loss by fire or explosion.

This policy will pay up to the Actual Cash Value of the property at the time of loss. It will also pay up to the cost to repair or replace the property with a like kind and quality.

The insured may take any dispute to arbitration but may not bring any suit against the insurer for at least 30 days after Proof of Loss has been filed. The insured is limited to 2 years in which to bring suit against the insurer.

If the insured carries other insurance on the property that may be covered under the Valuable Papers and Record Policy, the policies will be endorsed to indicate that the property covered under the policy will not duplicate any other coverage.

COMMERCIAL ARTICLES COVERAGE POLICY

This policy covers the following:

! Musical Instruments and Related Equipment
! Films and Related Equipment
! Projection Machines

! Cameras

The policy will also cover the above property that is in the insured=s care and custody and is another=s property.

The policy protects against □All-Risks□. Of course any causes that are specifically excluded would not be covered.

The policy also covers Collapse and Newly Acquired Property.

With Newly Acquired Property, if the insured acquires similar property under the policy, the insurance will cover such property automatically for 30 days. The maximum the insurer will pay for a loss is 25% of the total shown in the Policy Declarations for that type of property, or $10,000, whichever is less.

Under Collapse, the policy will cover Direct Loss resulting from Collapse of all or part of a building from any 1 of the following perils:

! use of defective materials or methods in construction, remodeling or renovation if the collapse occurs during the course of the work.

! fire, lightning and smoke

! windstorm and hail

! explosion

! vehicles, aircraft and falling objects

! hidden decay, hidden insect or vermin damage

! weight of snow, ice or sleet

! weight of rain that collects on a roof

! weight of people or Personal Property

! riot, civil commotion, vandalism and breakage of glass

The policy will not cover contraband or property in the course of illegal transportation.

CHAPTER 9 – VARIOUS COMMERCIAL INLAND MARINE FORMS

There are 5 hazards that are not covered:

1. voluntary parting
2. wear and tear
3. weather conditions
4. irrational acts and decisions
5. faulty or defective work

The covered property is subject to any Coinsurance Provisions.

ACCOUNTS RECEIVABLE COVERAGE POLICY

This policy will cover the following:

- interest on loans
- uncollectible monies
- cost to reestablish records
- collapse
- removal
- property away from premises
- property at other locations

The policy will not cover contraband or property being transported illegally. The policy covers risks of Direct Physical Loss but is subject to exclusions that are written in the policy.

There are 11 exclusions in the policy, all of which have been discussed previously. The 11 exclusions are listed below:

1. faulty or defective work

2. acts and decisions

3. weather conditions

4. electrical or magnetic injury

5. fraudulent schemes or tricks

6. bookkeeping errors

7. record alterations, falsifications or concealments

8. dishonest acts

9. war and military action

10. nuclear hazard

11. governmental action

The policy has an 80% Coinsurance Clause, except on property in transit.

The questions will arise, "How to Determine the Receivables"? If the insured cannot accurately establish the amount of Accounts Receivables outstanding at the time of a loss, the policy specifies how to make the determination.

1. the total of the average monthly earnings for the 12 months preceding the month in which the loss occurs is determined and this total is adjusted for any normal fluctuations in the amount of Accounts Receivables for the month in which the loss occurs or for any demonstrated variance from the average for that month.

2. Deductions:

    a. the amount of receivables for which there is no loss

    b. the amount of the accounts that can be established or collected

    c. the amount to allow for probable bad debts

    d. all unearned interest and service charges.

INTEREST ON LOANS

The policy also has a provision that will cover interest charges on loans the insured is forced to pay due to not being able to collect the monies owed.

CHAPTER 9 – VARIOUS COMMERCIAL INLAND MARINE FORMS

CHAPTER 9 QUESTIONS

1. All of the following are Commercial Inland Marine Policies except:

a. Equipment Dealers Coverage
b. Valuable Papers
c. Commercial Articles Coverage
d. Homeowners

2. This policy covers various Dental and Medical Equipment:

a. Physicians & Surgeons Equipment Coverage
b. Valuable Papers Coverage
c. Commercial Articles Coverage
d. Equipment Dealers Coverage

3. This policy is used to protect the insured=s Stock-In-Trade?

a. Physicians & Surgeons Equipment Coverage
b. Valuable Papers Coverage
c. Commercial Articles Coverage d.
d. Equipment Dealers Coverage

4. This policy offers extensive coverage for valuable records?

a. Physicians & Surgeons Equipment Coverage
b. Valuable Papers Coverage
c. Commercial Articles Coverage
d. Equipment Dealers Coverage

5. This policy covers films and related equipment?

a. Physicians & Surgeons Equipment Coverage
b. Valuable Papers Coverage
c. Commercial Articles Coverage
d. Equipment Dealers Coverage

answers

1. d
2. a
3. d
4. b
5. c

CHAPTER 10 – BAILEE'S POLICY

INTRODUCTION

Before our discussion of Bailee=s Policy, it is important to keep in mind that Bailee's Insurance Policies are known as Floaters because they cover property which moves from one location to another. Because of this movement, these policies fall under the Inland Marine Category of Insurance.

These policies are not usually written on an All-Risk Basis and will usually insure only against specifically Named Perils.

BAILEE - BAILOR DEFINITIONS

A Bailee is simply an individual or business who has temporarily taken custody of the property of another party. Obviously, the property has been turned over to the Bailee for some specific reason, such as for safekeeping, repair, renovation, storage, delivery, remodeling, processing, etc. The owner expects his/her property to be returned.

The Bailor is the owner of the property. When the Bailor and Bailee agree on terms, this is known as the Contract of Bailment. The property, which the Bailer turns over to the Bailee, is often referred to as the Bailee Property.

Some more striking **Examples** of Bailment are:

! *clothes to be laundered*
! *jewelry to be repaired*
! *property to be transported*
! *warehousing of goods*
! *machine parts to be fabricated*

When a Bailment is established, this is known as Bailment of Hire. Through the Bailment of Hire both parties expect to benefit. The Bailor expects the Bailee to perform duties, which will benefit the Bailor, and, since the Bailee is receiving compensation for such service, he/she is also benefiting.

Liability of Bailee **-** If a Bailee is hired to perform some duty, it is expected that he/she will take reasonable care of the property. There is liability involved and it must be established that the Bailee has been negligent in the caring for the property in order for a liability situation to occur.

The degree of care will vary depending on the property involved. The storage of furniture does not necessitate quite the level of care as a fine piece of jewelry does. It is understood that the

CHAPTER 10 – BAILEE'S POLICY

Bailee does have the responsibility of caring for the property. Because of the possible Loss Exposure, there are many Bailee=s Insurance Policies that may be utilized.

Some **Examples** of such policies are:

! *Cold Storage Floaters*
! *Dryers and Cleaners Forms*
! *Laundry Form*
! *Furrier's Customer Custody Form*
! *Jewelers Block Form*
! *Garment Contractors Floater Form*
! *Processor's Floater Form*

Before discussing each one of these forms, it is important to distinguish between two forms of coverage: Form A - All-Risk and Form B - Named Peril.

Bailee=s Customer Form A - All-Risk - like all All-Risk Policies, there is no need to mention the various perils protected against. All-Risks of Physical Loss or Damage are always assumed and only limited by the stated exclusions in the policy.

Bailee=s Customer Form B - Named Perils - The Counterpart Policy to Form A is the Form B - Bailee=s Customers Form as it will only cover Named Perils.

The Form B covers all lawful goods which are the property of others which are accepted by the insured for cleaning, laundering, pressing, dyeing, repairing or altering.

The policy will not cover goods which are held for storage. If goods are held by the insured with no instructions from the owner to hold in storage they are not considered as being held in storage.

The perils that are covered while in the insured=s building are:

1. collision of the vehicle in which the property is being transported

2. theft, which would include burglary and hold-up

3. floods

4. earthquake

5. sprinkler leakage

6. strikers, locked out workers taking part in any labor disturbances

7. explosion

8. smoke when due to the unusual faulty operation of a stationary heating furnace

9. aircraft and falling objects

10. motor vehicles except those owned or operated by or for the insured or by or for any custodian of the property

11. windstorm, hail, cyclone and tornadoes

12. fire

While in transit, Bailee=s Customer Policies stipulate that insured property will always be carried on trucks with a closed body and be equipped with locks. Also, the loss will be covered only while the property is within the closed body and is stolen by forcible entry into the vehicle. There would be coverage if the entire vehicle is stolen.

If goods are left overnight in any motor vehicles, the coverage would apply only if such vehicles were locked and garaged in a building which is occupied by the insured.

The Bailee=s Customer Forms has the usual exclusions that are implemented in the All Floaters Policy with the addition of:

a. The policy does not cover loss arising as a result of any dishonest act on the part of the insured, any employees or of any Bailee's.

b. The policy does not cover loss while the property is in the custody of any other Bailee.

The Bailee=s Customer Forms cover for the Actual Cash Value of the property at the time of loss. The policy will also pay for any labor or service charges.

The policy does contain a maximum Limit of Liability. A separate Limit of Liability is established for the premises of the insured, for each branch store, or for any other location not named, and while in transit on any one vehicle.

There are 6 requirements that the insured must fulfill at the time of loss:

CHAPTER 10 – BAILEE’S POLICY

1. ***Notice of Loss*** - the insured must give immediate notice of any loss to the company or its agent. The insured must also notify the Police Department in case of theft.

2. ***Proof of Loss*** - this form must be filed within 4 months of the date of loss.

3. ***Adjustment of Loss With Insured or Customer*** - the company is permitted to adjust the loss and pay the loss to the insured or to the customer or customers whose property sustained a loss.

4. ***Right to Begin Legal Proceedings*** - the insured must agree after collecting a loss from the company to begin a suit, at the expense of the company, against any other Bailee, carrier of goods, or other party who may be liable for the loss.

5. ***Insured=s Privilege Adjusting Losses*** - the company allows the insured the right to adjust any loss in which the aggregate amount of all claims does not exceed $100.

6. ***Sue and Labor Clause*** - this means that the insured is obligated to take all possible means to preserve the property from further loss and to seek its recovery. The policy clearly states that the insured will be reimbursed for any expenses undertaken while trying to accomplish these duties.

MISCELLANEOUS PROVISIONS

Cancellation - the insured or the company may cancel the policy at any time, either party is obligated to give 15 days notice to the other.

If the company performs the Cancellation, the rate is done on a Pro-Rata Basis. If the insured cancels, then the Cancellation Rate is short-rated.

PREMIUM DETERMINATION

The rate for a risk is left entirely to the judgment of the underwriter. Most of the rates are written for a flat premium and the Bailee=s Customer Forms are written on a Reporting Form Basis.

Initial premium collected is a Deposit Premium. Each month, the insured would report to the company the monthly total of gross receipts and would pay the required premium based on the rate used in the policy.

COLD STORAGE LOCKER BAILEE FLOATER

Due to the popularity of frozen foods, the need for this Floater has been developed. For the Bailee who operates a Cold Storage Locker to store food belonging to others, this provides coverage to protect the Customer=s Property.

CHAPTER 10 – BAILEE’S POLICY

This Floater is written either on an “All-Risk” Basis or on a Named Perils Basis. The Named Perils will protect against:

- lightning
- windstorm
- hail
- explosion (other than boiler)
- civil commotion
- fire
- aircraft and vehicles
- earthquake
- property transporter collision
- theft

The policy also contains a Limit of Liability per locker and an Aggregate Limit for the entire loss.

PROCESSOR=S FLOATERS

Many industries, which produce a product, may depend on the following:

- outside plants and
- possible contractors for some service

When the manufacturer turns property over to another firm for processing or fabrication, it is entering into a Bailor-Bailee relationship.

The liability of the Bailee is the same as any other Bailee and is limited to the loss caused by the particular Bailee's negligence.

In many cases, good business practice encourages the Bailee to insure the property being given them to protect against loss even when not due to negligence. This is the role of the Processor=s Floater.

This Floater is usually written on a Named Perils Basis and will insure against the following:

- windstorm
- cyclone

! tornado
! riots
! strikes

! burglary and holdup
! sprinkler leakage
! lightning
! fire

Just like the Bailee=s Customer Form, the policy will cover the unpaid charges for any labor performed on the property, which is considered uncollectible by the destruction of the goods.

FURRIER=S CUSTOMER POLICY

The Furrier is just like any other Bailee who accepts goods for storage and/or repair. However, there are 2 differences between the Furrier Bailee and other Bailee's. The most notable difference is that the Furrier is usually handling articles of high value which are susceptible to loss. For this reason, owners of such property want broad coverage to protect their valued property. A second difference that makes Furriers quite unique is that a great percentage of the Furrier=s business is simply storage.

A form of insurance has been developed called the Furrier=s Customer Policy and like other Bailee-Bailor relationships, this policy will cover not only the furrier=s liability to its customers, but also covers any damage or loss on the customer=s property.

The policy will cover 2 broad areas of property:

1. garments other than furs and
2. furs and articles trimmed with fur

As to garments other than furs the policy will not cover clothing other than furs which have been accepted by the insured for any type of processing since these items should be covered under a separate policy. The coverage does exist only for storage. The policy will only cover a customer=s property for which the insured has issued a written receipt.

The Furrier=s Customer Policy will also cover goods received by the insured from customers and also any property which is on a "Layaway" Plan when the purchaser agrees to leave the garment with the furrier until certain payments have been made.

Usually, the policy is sold to furriers and fur storage businesses but it is also available to laundries, cleaners, banks and other organizations that accept furs for storage.

The Furrier=s Customer Policy is an "All-Risk" Policy. It will cover:

! mysterious disappearance
! water damage

! dampness
! chemical damage

Because of these coverages, the policy offers broader coverage than most other policies.

Exclusions that are unique to the policy are 3 in number:

1. ***Dishonesty of Employees*** - this policy will pay for loss covered by dishonest individuals but it will only apply to any excess, which is over the primary insurance for this situation. An **Example** will highlight this situation. *Assume a furrier carries a Blanket Position Bond (which is the primary coverage for a dishonest employee) which would cover any loss up to $10,000. The furrier=s driver "removes" a fur coat worth $20,000 from the delivery truck. In this situation, the Blanket Position Bond will pay the first $10,000 and the policy the excess, or the remaining $10,000. If the furrier had no insurance covering employee dishonesty, the policy would wind up paying the entire loss, subject to the Limit of Liability.*

2. ***Damage Due to Process*** - just like the other Floaters, this policy will not cover loss or damage caused by work performed on the insured property. The policy will, however, pay for this type of damage if caused by explosion or fire. **Example:** *the insured was cleaning a coat and the cleaning material used damaged the coat. The policy would not cover this damage.*

3. ***Liability for Guarantee of Work to be done*** - the policy clearly excludes any liability, which the insured assumes when it guarantees the result of work. If the insured accepts a coat for dyeing and guarantees that the shade of the coat will change according to the customer=s specifications, it may be held liable if it fails to achieve what is guaranteed. The policy will not pay for the liability.

The policy will only pay up to the Actual Cash Value of the damaged property at the time of the loss, or possibly, the cost, to repair or replace the damaged property with like property.

The Furrier=s Customer Policy does not cover any property unless a written receipt for the item has been issued. The policy will not pay a dime over the amount stipulated on the receipt issued by the insured. The policy also states that the insured must keep an accurate record of all the receipts that have been issued. Also, if the customer accepts the receipt issued by the insured as accurate, then the receipt will be the form used to determine value at the time of loss.

There are policy limits stated in the policy. In addition to the limit per article, the policy also contains a maximum limit for each of the premises used for storage as listed in the policy, for locations not used for storage and for other unnamed premises. Also, the policy contains an Aggregate Limit for any one loss regardless of the number of locations.

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For a Furrier=s Customers Policy, the premium is determined by the following:

1. the Basic Fire Insurance rate for the vaults contents of the risk

2. a loading charge from month-to-month. The loading charge is impacted by the construction of the vault and any protective devices that are installed

The insured is required to report to the company each month the values at risk. The insured would report the total amount of values stated in all receipts that were outstanding on the last day of the previous month.

These are the customary 5 requirements that the insured must comply with in the case of loss:

1. ***Proof of Loss*** must be filed within 90 days of the date of loss

2. ***Notice of Loss*** - insured must give immediate Notice of Loss to the company

3. ***Loss Payable*** - the loss payment should be payable in a reasonable time, usually 30 days after determination.

4. ***Sue and Labor*** - the insured is obligated to take all possible means to preserve the property from any further loss and also to seek its recovery. The policy will reimburse the insured for any expenses in attempting to fulfill these duties.

5. ***Term of Policy*** - the policy is continuous until cancelled. The policy will be subject to annual re-rating by the Insurance Services Office. Since this policy has no expiration date, it is known as an Open Form.

CHAPTER 10 – BAILEE'S POLICY

CHAPTER 10 QUESTIONS

1. Floaters that cover property, which moves from one location to another, are called?

a. Transit Policies
b. Bailee=s Policies
c. Cargo Policies
d. all of the above

2. An individual or business that has temporarily taken custody of the property of another party is called:

a. Bailee
b. Bailor
c. Transferer
d. all of the above

3. A(n) example(s) of a Bailment would be:

a. clothes to be laundered
b. property to be repaired
c. warehousing of goods
d. all of the above

4. An example of a Bailee=s Insurance Policy would be:

a. Jewelers Block Form
b. Transit Form
c. Ocean Marine Form
d. All-Risk Form

5. What Bailee=s Customer Form is a Named Perils Form?

a. Form A
b. Form B
c. Form C
d. Form D

answers

1. b
2. b
3. d
4. a
5. b

CHAPTER 11 – OWNER'S COMMERCIAL FLOATERS

INTRODUCTION

It is quite common in some industries for the Bailor to insure goods which, in turn, are handed over to a Bailee. A common situation is when shippers carry goods they have turned over to transportation companies.

Throughout this Chapter we will cover industries where work is regularly done at outside facilities such as the garment industry, and study the Garment Contractor=s Floater Policy. We will also discuss the Jeweler=s Block Policy, where one policy covers the insured=s directly owned property (the property which the insured holds as a Bailee and that which he entrusts to others). We will conclude the chapter with various other Commercial Inland Marine Coverage Policies such as Signs Coverage Form, Floor Plan Coverage Form, Film Coverage Form and Theatrical Property Coverage Form.

GARMENT CONTRACTOR=S FLOATER

Many garment manufacturers send out a good part of their work to be done by reliable outside contractors and subcontractors. Contractors such as embroiderers, buttonhole makers and pleaters are utilized by garment manufacturers. Also, a good portion of the sewing and finishing of the final product is completed at outside plants. It is common for the manufacturer to purchase insurance to protect the goods. Thus, a special policy, purchased by the manufacturer, was developed.

The Garment Contractor=s Floater covers the following:

1. containers for the garments
2. garments
3. parts of garments
4. materials
5. supplies

It is important to note that any such property would be insured, whether manufactured or in the process of manufacture. The policy also covers both the property of the named insured but any property held in trust or on commission, or on consignment.

The policy is divided into 3 sections: two sections deal with the Basic Coverage Areas: *On Premises of Contractors* and *Transit Coverage*. The policy also has an optional third section - *Insured=s Premises Extension.*

CHAPTER 11 – OWNER'S COMMERCIAL FLOATERS

Section 1 - On Premises of Contractors - in this section, the policy clearly states that property which is temporarily held at the premises of contractors or subcontractors for work to be performed on it would be covered. Coverage is not provided if the property was at the contractor=s premises for any other reason.

Example: *if the manufacturer had stored some goods at a contractor=s premises, there would be no coverage. The policy would cover the stated property insured while on the premises of any contractor.*

The policy will exclude the following types of processors of textiles:

1. tanners or testing houses that are not defined to be contractors for purposes of this insurance.
2. throwsters or other yarn processors
3. weavers
4. finishers or other cloth finishing works
5. printers
6. dyers
7. spongers
8. shrinkers

Section 2 - Transit Coverage - property while in transit between the insured=s premises and his/her contractors, subcontractors, mills and suppliers would be covered. The policy does specify the various types of transportation which are covered:

! messengers

! on trucks owned or operated for the insured or his contractor

! air transportation carriers

! railroad or railway expresses company

! public or private truckers, land transfer or other land transportation carriers

CHAPTER 11 – OWNER'S COMMERCIAL FLOATERS

Keep in mind that a separate Limit of Liability may be set up for each of the different methods of transportation. Also, there is no coverage or any property that is shipped through the mail.

Section III - Optional Coverage - Insured=s Premises Extension - The coverage may be extended to cover the property on the insured=s premises under the Basic Policy. Also, the policy may be extended to cover the following types of property:

! dyes and patterns
! machinery and tools
! furniture, fixtures and office supplies
! tenants improvements and betterments

The above availability of coverage will depend on the insured=s particular state.

The hazards covered will vary according to the section of coverage.

While in transit, the property is covered against All-Risks, while on the premises of contractors, the coverage would be on a Named Perils Basis.

The policy coverage could be extended to cover All-Risks on the premises as well as in transit if garment contractors All-Risks Floater is purchased. We will discuss this coverage in our next section.

While property is in transit between the insured=s premises and those of his/her contractors, subcontractors, or suppliers, it is covered against All-Risks of loss or damage from any external cause, except those losses that are specifically excluded.

Hazards that are covered while on the premises of contractors, subcontractors or supplies are 7 in number. Optional coverages may be provided for 4 additional types of perils.

The 7 covered hazards are:

1. ***Boiler Explosion*** , which originates within steam boilers, pipes, fly wheels, engines and machinery connected. ***Note: no other explosion would be covered.***

2. ***Burglary*** - this means illegal entry into the premises by force and violence when the premises are not open for business, and when visible marks of force and violence are left.

3. ***Fire and Lightning***

CHAPTER 11 – OWNER'S COMMERCIAL FLOATERS

4. ***Water Damage*** - the policy coverage is quite broad as it covers any physical contact with water.

5. ***Windstorm, Hail, Smoke, Vehicles and Aircraft*** - there is no coverage for explosion, riot and civil commotion.

6. ***Holdup*** - this means the forcible taking of property by violence, or other felonious acts that are committed in the presence of a custodian of the property.

7. ***Sprinkler Leakage***

OPTIONAL ADDITIONAL COVERAGE

The policy conveniently provides a space for this insertion of the word covered if the optional coverages are chosen.

! ***Theft***

! ***Consequential Damage to Garments*** - this coverage would include broken lots, size or color ranges. The insured would also be protected if as a result of insured loss or damage, he/she would be unable to make up a full lot, range of sizes or colors. Provided the insured customarily sells garments in lots or ranges of sizes of colors.

! ***Consequential Damage to Garments*** - under both consequential damage coverages, consequential losses are insured when caused by any of the perils of the Garment Contractor=s Floater, including any optional additional coverages which may have been added to the policy.

! ***Strikes, Riots, Malicious Mischief and Explosion*** - the coverage on explosion excludes the explosion of steam vessels.

The Garment Contractor=s Floater has the usual Floater Exclusions: gradual deterioration, wear and tear, insects, vermin, hostile or warlike action in time of peace or war, and nuclear reaction or radiation. It also has 3 additional exclusions:

1. Dishonesty Acts of Employees

2. chaffing, rubbing

3. delay or loss of market. The insured is covered for a direct damage to goods in transit but would not be covered for a delay in making a delivery.

CHAPTER 11 – OWNER'S COMMERCIAL FLOATERS

The policy will cover Loss or Damage up to the Actual Cash Value of the property at the time of the loss, but for not more than the cost to replace the property.

There is a Coinsurance Clause. The Garment Contractor=s Floater is written with a 100% Co-insurance Clause. This means that the insured is required to carry insurance equal to the total value of goods on the premises of all contractors. If the insured fails to maintain this insurance, he/ she will be coinsured and will be forced to bear a portion of any loss.

There is a Limit of Liability for each contractor or subcontractor. A maximum Limit of Liability is inserted alongside each of the contractors named in the policy. The policy also provides coverage for the premises of contractors that are not named in the policy. A Limit of Liability is inserted to apply to any unnamed location, but the Limit of Liability will not exceed 25% of the total amount of insurance carried or $25,000, whichever is less.

This simply means that the insured does not need to specify any contractor to whom he/she has given goods to if the value of the goods does not exceed 25% of the amount of insurance and is not over $25,000. If the value of any of the contractor=s premises goes above 25%, the insured must then specify the particular contractor and set the Limit of Liability high enough to cover the property.

Note that the Coinsurance Clause requires that the insured carry 100% of the value at risk of all contractors, whether they are named or not.

The Garment Contractor=s Floater has 10 other provisions:

1. ***Benefit of Insurance*** - this provision states that when a receipt is issued, the Bailor stipulate that any insurance carried by the owner of the property will be for the benefit of the Bailor

2. ***Notice of Loss and Proof of Loss*** - the insured must give notice of any loss as soon as is practical and reasonable. The insured must file a Proof of Loss within 90 days of the loss.

3. ***Examination Under Oath*** - At times, the insurer may require the insured to submit to examination under oath and to produce records that are important to the loss, as well as the remains of the insured property.

4. ***Right to Institute Legal Proceedings*** - this provision states that no action may be brought against the company before there has been full compliance with the terms of the policy but not after 2 years from the date the insured had any knowledge of the loss.

5. ***Loss Payable*** - this loss should be paid within 30 days after the determination of the loss.

6. ***Term of the Policy*** - this policy states 12 noon, standard time, at the place where the insurance takes place. This type of policy may be written for more than 1 year.

7. ***Other Insurance*** **-** as before, the policy states that if there is other insurance at the time of loss, the Garment Contractor=s Floaters is liable only as excess insurance and simply only pays the excess of any loss over the amount of any other insurance.

8. ***Requirements in Case of Loss*** - the insured is obligated to use all reasonable means to save and preserve the property at the time of any loss. The policy will not cover any loss caused by the insured=s neglect.

9. ***Released Bills of Lading or Shipping Receipts*** - This Floater insures goods while in transit. This policy does not cover any loss if the insured accepts a receipt from a shipper, which limits the carrier=s liability to less than the full value of the goods shipped. This policy grants permission specifically to the insured to accept such limited receipts, provided that certain minimum valuations are stated.

10. ***When Suit Must Be Brought*** - A legal suit against the insurer cannot be started until the completion of the 12th month from the date of the incurred loss.

The Garment Contractor=s Floater may be written for a flat annual premium, or on a reporting form that would be based on gross sales. The rate for the reporting form is calculated by multiplying the flat annual premium by the insured=s gross sales for the 12 months immediately before the application.

The premium payment may be paid monthly, quarterly or semi-annually. The insured would be required to report the total amount of gross sales for the chosen period established in the policy by the 30th day of the succeeding period.

It is important to note that the Coinsurance Clause does not apply to policies written on a Gross Sales Reporting Basis. The Reporting Form Policy is subject to a deposit premium against which the premium earned for each reporting period is applied. When the Deposit Premium has been fully earned, the insured pays an additional premium at the rate named, for each successive period. The reporting form has a $500 minimum premium.

Premium is determined when the garment manufacturer submits an application in which he/she sets forth the approximate values estimated at risk during the next 12 months at various contractor or subcontractor locations. The rate is then developed with the above data and this rate is in effect for 1 year. When the policy comes up for renewal, the insured will once again submit a breakdown of the different locations he/ she is planning to use. Obviously, if a change has been made then the rate will be changed.

CHAPTER 11 – OWNER'S COMMERCIAL FLOATERS

GARMENT CONTRACTORS ALL-RISK FLOATER POLICY

Because the Basic Garment Contractor=s Floater Policy only provides coverage on property while on the premises and only against named risks, the Garment Contractor=s All-Risk Floater was developed. With this policy it is possible to extend coverage to include protection against all risks. When this is endorsed to the policy, the sections of the policy which indicate the protection provided and the exclusions which are part of the policy are simply deleted. In their place, the policy will insure against any Direct Physical Loss or of damage to the property covered. Of course, all coverage is subject to some exclusions but this floater has 7.

1. *Nuclear Reaction of Radiation and Contamination.* If caused by a fire, the direct loss that results from the nuclear reaction would be covered.

2. *Delay, Loss of Market and Gradual Deterioration are excluded*. Also, any type of rubbing, chafing, insects, vermin and inherent vice are not covered.

3. *Seizure or destruction under quarantine* or customers regulation would not be covered. Confiscation by order of any government or public authority and contraband or illegal trade would not be covered.

4. *Mysterious disappearance* or an unexplained loss or shortage that is disclosed when taking an inventory would not be covered.

5. *Hostile or warlike action* in time of peace and any weapon of war that is employed to create an atomic fusion or radioactive force would not be covered. Also excluded would be any insurrection, rebellion, revolution or civil war.

6. *Loss resulting from the property being worked upon* would be excluded (except, of course, if fire or explosion develops then the company is only liable for loss created by the fire or explosion).

7. *Sabotage and theft* by the insured or employees or by any person to whom the insured property is delivered would not be covered. If the property is deposited for sale, custody, or while in the custody of a carrier for hire or a porter that is not on the insured=s payroll and a loss occurs, then there is coverage.

JEWELERS BLOCK COVERAGE FORM

As discussed before, the jewelry business differs drastically from most other types of businesses. There are 3 differences in the jewelry business that make it unique:

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1. most of the property is quite small

2. although small in mass, most of the property is quite valuable

3. the average jeweler is usually engaged in quite a few different types of activities. **Example:** *the typical jeweler is usually selling at retail and probably has a few salespeople on the road. Also, the jeweler probably accepts jewelry and watches from the public for repair or renovations. Often, the jeweler will have in his/her possession property that belongs to other dealers for which he/she is liable as a Bailee.*

Due to these various types of duties, a policy was developed that would cover all the various types of property at risk against many types of loss or damage. For this reason, the Jeweler=s Block Policy is one of the broadest forms of insurance in our study of Inland Marine Insurance. There are several features which make this policy unique. This policy requires the submission of a completed, detailed proposal, which becomes a part of the policy. Also, separate Limits of Liability will be applied to the different classes. Limits are shown for the stock covered at each of the insured=s stores, which includes:

!property off the premises for any circumstance

! property in vaults

!property entrusted by the insured to others

!stock which is kept at the various insured=s locations

The Jewelers Block Policy covers:

! ***Money*** - although not covered under a Basic Policy, money can be listed as property and covered. This is usually purchased as an option. Coverage would then be extended to cover any loss of money from locked safes or vaults inside the premises by theft. The safes or vaults must be broken into.

! ***Show Windows*** - this coverage may be extended to cover loss of property in the insured=s Show Windows at the premises. The coverage protects against theft or attempted theft.

- ***Collapse*** - the policy will cover Direct Loss resulting from collapse of all or part from any of the following perils:

- use of defective materials or methods in construction, remodeling or renovation if the collapse occurs during the course of the work.

- fire, lightning and smoke

- windstorm and hail

- explosion

- vehicles, aircrafts and falling objects

- hidden decay and hidden insect or vermin damage

- riot, civil commotion, vandalism and breakage of glass

- weight of snow, ice or sleet. The weight of rain that collects on a roof. Also, weight of people or personal property.

- ***Property in Transit*** - except for the excluded methods of transportation, other covered methods of transit are armored car delivery, parcel delivery service, etc.

  Keep in mind that each mode of transportation covered will have its own Limit of Liability.

- ***Damage to Buildings*** - assuming the insured owns the building or is legally liable for damage to it, the policy will extend and pay for damage by theft or threat to the building and the equipment used in servicing the building. There is no coverage for loss caused by fire, or to glass or lettering on the glass.

- ***Property of Others in Jewelry Trade*** - similar property of others in the jewelry trade which the insured has control over would also be covered.

- ***Property of Others Not in Jewelry Trade*** - similar property of others not in the jewelry trade, which is in the insured=s care would be covered.

- ***Stock-in-Trade*** - Stock-In-Trade that consists of jewelry, precious and semi-precious stones, precious metals and alloys would be covered. Also covered would be other stock used in the business. Similar property, which has been sold but not yet delivered by the insured, would also be covered.

The hazards covered would be all-inclusive except those perils excluded in the policy. The Jewelers Block Policy will usually have separate Limits of Liability for the various types of property.

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There are 3 Basic Optional Property Coverages which may be added:

1. types of property covered under the Furniture, Fixtures, Tools and Machinery Option plus the Tenant=s Improvement.

2. Furniture, Fixtures, Tools and Machinery but not Improvements by the Tenant.

3. Patters, Molds and Dies.

There are 9 types of property that are <u>not</u> covered:

1. ***<u>Property Under a Deferred Payment Plan</u>*** - the policy will not cover property sold under a deferred sales agreement after it has left the insured=s premises. If property that is sold under a <u>layaway</u> plan under which the items are retained by the insured until paid for would be covered.

2. ***<u>Exhibitions</u>*** - there is no coverage at an exhibition promoted or assisted by any public authority or trade association.

3. ***<u>Show Cases</u>*** - property in Show Cases or Show Windows away from the premises is not covered.

4. ***<u>Property in Transit</u>*** - the policy will not cover property in transit by the following modes, except where noted:

   <u>Mail</u> - property must be sent by First Class U.S. Postal Registered Mail or it will <u>not</u> be covered.

   ! ***<u>Express Carriers</u>*** - this mode of transit will <u>not</u> be covered.

   ! ***<u>Shipments that are under receipt</u>*** of their Passenger Parcel Transportation or baggage service would be covered.

5. ***Railroad, Waterborne or Air Carriers*** - no coverage is provided for these modes except for 2 situations

6. ***Air Carrier=s Passenger Baggage Service*** that is subject to Air Freight Tariffs with delivery to the passenger at the destination, which is considered as accompanied baggage would be covered. One noted provision is that this form of shipment is subject to the limit of insurance that is shown on the policy Declarations Page as applicable to ***property away from the premises and not included above***.

7. ***Motor Carriers*** - shipments by motor carriers would not be covered. The one noted exception would be for carriers operating exclusively as a Merchant=s Parcel Delivery Service, by Armored Car Service or by Parcel Transportation or Baggage Services of Passenger Bus Lines.

8. ***Property Being Worn by the Insured*** - this will not cover any property being worn by any director, agent, employee, member, messenger or officer of the insured. Also, there is no coverage for property being worn by any member of the family, relatives, or friends of the named insured. An exception is made for watches while being worn for the purpose of adjustment.

9. ***Illegal Transportation, Contraband*** - Obviously there is no coverage for loss due to illegal activity.

Hazards that are not covered by the Jeweler=s Block are quite numerous. They are:

- earthquake
- flood
- water damage
- unexplained disappearance
- inventory shortage
- damage due to processing
- delay due to processing
- delay or loss of market
- fraudulent scheme
- unauthorized instructions
- weather conditions
- government action
- nuclear hazard
- war and military action
- theft from any vehicle

! infidelity
! shortage of property
! theft from show window
! defective packing
! changes to premises
! breakage of fragile articles

CHAPTER 11 – OWNER'S COMMERCIAL FLORTERS

Valuation of property protected under the Jeweler=s Block is based on the lowest figure put on the property in the insured=s inventories, stock books, stock papers or lists existing at time of loss.

There is no Coinsurance Clause but the insured is required to maintain a minimum amount of insurance based on the figures furnished in a special application which must be submitted when applying for a Jeweler=s Block Coverage Form.

The Policy has 4 different Limits of Liability:

1. ***Clause A*** - Limit on property at the location described in the policy.

2. ***Clause B*** - Applies to 5 separate situations, each of which may be covered for a different amount:

   ! property shipped by registered mail

   ! property in the custody of an Armored Car Service

   ! property in the safe or vault of a bank or safe deposit company

   ! Property in the custody of another party in the jewelry business not employed by the insured

   ! property in the custody of a commissioned salesman or agent

3. ***Clause C*** - places a limit on property in transit by Customer Parcel Delivery Service or service of a railroad, water or air carrier or passenger bus line.

4. ***Clause D*** - a separate limit may be used under this clause for other property than those covered by Clauses A, B and C.

   Registered Mail Deductible - a special deductible is always available for registered mail shipments.

   Deductible **-** the policy is usually written subject to a $500 deductible. Higher deductibles are also available.

   Antiquarian or Historical Values - the policy, in settling a loss, excludes both these values in insured property.

Pledged Articles - policy limits the value of Pledged Articles to the amount actually lent and unpaid interest at the legal rate.

Property in Custody of Salesman - even when the limit for property in the custody of salesman in the policy exceeds $5,000, Off-Premises Coverage on this property is limited to $5,000 when in the custody of salespeople, firm members or officers of the corporation, unless such a person is named in the Endorsement as being covered for a higher limit.

The insured must take protective safeguards to protect the property. The insured must keep accurate records and inventory. Such records must be kept for 3 years after the policy expires.

These records will consist of an itemized inventory of all stock trade, records of all purchases and sales whether for cash or credit, records of the property of others while in the care and custody of the insured. Also, a detailed listing of traveler=s stock and record of all other property away from the premises must be kept. The insured is required to take a physical inventory of all Stock in Trade a minimum of annually.

The Application **-** The Jeweler=s Block Policy Application is quite different from other property insurance policies in that it requests extensive information. Also, a separate application is required for each location and usually consists of 6 pages. A copy of the Application is stapled to the back of the policy.

The application is divided into 7 parts.

! ***Part One*** - asks for information on the members of the firm or offices of the corporation

! ***Part Two*** - request the number of locations per insured and whether or not the premises are shared. Also, data on the number of premises which are open to the general public is requested.

! ***Part Three*** - requests information on the insured=s employees.

! ***Part Four*** - asks for a statement on losses sustained within the past 3 years.

! ***Part Five*** - requires information on the bookkeeping in use and an itemized set of limits for the following 5 categories:

1. Stock-in-Transit by Merchant=s Parcel Delivery Services

2. Stock-in-Transit by all other shipments of property covered under the policy

3. stock, which would also include other people=s goods

4. Stock-In-Transit by armored car

5. Stock-in-Transit by registered mail

The application makes it clear that the limits cannot be less than 80% of the average inventory value that are kept at each location.

! ***Part Six*** of the application details the Optional Coverages available and states that the Limit of Liability cannot be less than 100% for furniture, fixtures, office supplies, improvements and betterments.

! ***Part Seven*** requests information on detailed inventories at all locations, property in Show Windows, Show Cases and Show Window Displays off the insured=s premises. Information is requested on travel and messengers, burglar protection for the building, staff, and vaults. Information is needed on any type of measures such as watch guards and other safeguards which would include stock enclosures.

OTHER COMMERCIAL INLAND MARINE COVERAGES

! ***Signs Coverage Form*** - the insured=s signs and similar property would be covered.

! ***Floor Plan Coverage Form*** - property specified in the Policy Declarations which is at the insured=s Risk and Property specifically encumbered to a secured lender named in the declarations.

! ***Film Coverage Form*** - this policy would cover exposed motion picture film and its sound track or other sound record and properly recorded magnetic or video tape and its sound track or other sound record. Tape is considered properly re-corded when it has been replayed and checked after recording.

! ***Theatrical Property Coverage Form*** - all scenery, costumes and theatrical property belonging to the insured or similar property in the insured=s care and custody on which he/she has made partial payments.

CHAPTER 11 – OWNER’S COMMERCIAL FLOATERS

CHAPTER 11 QUESTIONS

1. A Garment Contractor=s Floater is usually purchased by?

a. Pleater
b. Manufacturer
c. Embroiders
d. all of the above

2. The Garment Contractor=s Floater provides coverage on property while _______?

a. in transit
b. on vessels
c. in storage
d. on premises

3. A jeweler=s business is different from other businesses because

a. most of the property is small
b. most of the property is valuable
c. jewelers assorted activities
d. all of the above

4. When an insured wishes protection on signs, he/she would purchase?

a. Sign Coverage
b. Film Coverage Form
c. Floor Plan Coverage Form
d. All-Risk Coverage

5. A policy that would cover costumes would be?

a. All Inclusive Coverage
b. Film Coverage Form
c. Theatrical Property Coverage
d. Signs Coverage Form

answers

1. b
2. d
3. d
4. a
5. c

CHAPTER 12 – TRANSPORTATION INSURANCE

INTRODUCTION

Because transportation is probably one of the largest industries in this country, this type of insurance comprises a key element in the Inland Marine Insurance arena. Transportation Policies are used to insure an owner of goods for loss or damage to the goods on the following:

1. by rail
2. public truckmen
3. air freight
4. railway express
5. insured=s own fleet of trucks

It is important to understand the basics when discussing the duties of a shipper, receiver, or transporter of goods (carriers). The basic elements of the Transportation Law should be understood, along with the customs of the Trade and Regulations of the Interstate Commerce Commission (ICC) and Public Service Commission (PUC).

COMMON AND PRIVATE CARRIERS

It is important to know the difference between a Common and Private Carrier mainly because of the difference in liability.

A Common Carrier is anyone who holds themselves out to the public as a carrier of goods for hire. A Common Carrier offers its services to one-and-all. It will limit its carriage to certain products as it will probably refuse to carry dangerous materials or even perishables. A Common Carrier will only operate within certain geographic areas but within these areas they will offer services to anyone who needs them. It is not unusual for a Common Carrier to have more than one occupation. The best **Example** *would be a farmer who not only takes his produce to market and also his neighbors - thus becoming a Common Carrier.*

Contract Carriers are individuals or businesses that work only for another firm or for a limited number of companies under regular long-term contracts. These Contract Carriers are not known as Common Carriers, they are simply ***Contract Carriers***.- A firm which carries only its own goods are not Common Carriers but are known in the industry as ***Private Carriers***. Private Carriers might, on occasion, carry other firm=s goods for hire, only infrequently.

Freight Forwarders - do not carry goods on their own trucks and are not considered carriers. They do accept goods for processing: packing, crating and forwarding. Freight Forwarders assume the obligation of a Common Carrier and therefore, actually sign for the property in their own name.

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LIABILITY OF COMMON CARRIERS

As discussed earlier, all carriers of goods for hire will have a Bailment situation. They are considered Bailees and will have a duty towards the property they carry.

There is an important difference between the liability of a Common and Private Carrier. The Private Carrier is considered an ordinary Bailee and must exercise reasonable care. A Common Carrier, on the other hand, is liable for the safe delivery of the goods period. A Common Carrier is held accountable for the safe delivery of the goods, regardless if it was negligent or not. The Common Carrier is responsible for the safe delivery of the goods in its care unless it cannot make a delivery due to any of these 5 reasons:

1. ***Inherent Vice of the Goods*** - simply, if some quality in the transported goods themselves causes them to spoil without any external cause, the Common Carrier cannot be held responsible. The inherent vice must be the immediate proximate cause of the damage. A question would arise if spoilage arises. Could the spoilage have been avoided if the Common Carrier exercised better judgment in the refrigeration of the truck?

2. ***An Act of God?*** - simply stated, an Act of God is one in which there is no way a Common Carrier could have avoided it. **Examples** *lightning, earthquake and tornadoes.* It is important to note that the Common Carrier is expected to still exercise common sense and avoid any adverse situations as best as possible.

3. ***An Act of the Public Enemy*** **-** this refers to a nation that is at war with the insured=s country. Mobs, riots, thieves or robbers are not within the meaning of this definition. Loss that would be caused by rioters would be the liability of the carrier.

4. ***Act of the Public Authority*** - when goods are literally taken away from the carrier for valid reasons, the Common Carrier is not liable. **Example:** *Products that are contaminated and seized by health authorities.*

5. ***An Act of the Owner-Shipper*** - if a shipper has improperly packaged goods or has sent them to an improper destination, the Common Carrier would not be held liable.

Only for these 5 reasons is a Common Carrier exempted. The shipper only has to prove its surrender of the goods to the carrier. To clearly put it, the Common Carrier is at risk. The carrier, at this point, must either pay for any loss or damage, or prove that the loss of damage arose from one of the mentioned causes.

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LIABILITY OF INITIAL CARRIER

Often, a complete trip involves a chain of carriers. It is standard practice for one carrier to accept goods for shipment to destinations beyond the limits of the Initial Carrier=s boundary and then to arrange with other carriers to complete the trip. Thus, a complete trip could involve a line of different carriers.

The Initial Carrier who accepts goods from the shipper for eventual different carriers becomes liable for loss or damage to the goods. It must be noted that the Initial Carrier is not only liable for his trip but also for the goods during any segment of the trip.

The Initial Carrier is responsible for such goods until they reach their destination. The initial carrier is the principal who assumes liability for all the acts of the other carriers who are considered to be agents.

The carrier is liable for any goods from the time it receives them until they are delivered to their final destination. Certain situations exist that will create different levels of liability.

If the carrier receives only a partial shipment of goods and holds them while the remainder of the shipment is being prepared for shipment, the carrier=s liability would be that of Warehouseman only, which means the carrier is responsible only for its own negligence.

If the goods are delivered to the carrier in prepared form and ready for shipment, it will not matter whether the carrier holds them for its own reasons, the liability of the entire shipment has started. If, while the goods are being transported, they are stopped for a short period of time, the period is considered incidental and the carrier=s liability is not interrupted. If the shipment is halted by the shipper, the liability of the carrier reverts back to that of a Warehouseman.

The liability of the carrier stops when the goods are delivered to there agreed upon final destination. If the consignee requests that the carrier holds the goods for a period of time before they are accepted, the liability of the carrier becomes that of a Warehouseman.

When rail shipments are being made, the consignee should be given 48 hours notice which would allow time for pickup. In this situation the carrier is acting as a Warehouseman and has Warehouseman Liability only.

DELIVERY OF GOODS

Goods delivered can mean different things. The Delivery of Goods are dictated by the customs of that particular industry. At times constructive receipt could mean goods that are placed at a location where it has been customary to deposit them. At times, the contract itself will state specific location points. **Example:** *carload shipments to private railroad spurs are generally considered "delivered".*

If the carrier is to become liable, it should take control of the property. Just placing the goods out to be picked up by the carrier before notifying the carrier of the action will not make the carrier liable for the loss of the goods.

When a shipper surrenders goods to someone who is fraudulently posing as an agent of the carrier, the carrier would not be liable since the goods were not under the control of the carrier.

LIMITATION OF LIABILITY OF COMMON CARRIER

The carrier does have an option to lessen its total liability by making a special arrangement with the shipper to Limits of Liability. Usually the shipper will place a value on the goods and the carrier and shipper will agree in writing on the value. This then becomes part of the Bill of Lading.

There are conditions which must be adhered to:

1. the carrier must offer the shipper the unrestricted right to choose the valuation it wishes to declare on its goods and a graduated set of freight rates based on different valuations.

2. if the shipper declares the goods at full value, the carrier must accept the goods. If a lower valuation is acceptable to the shipper, it must receive a lower freight rate.

3. It is not permissible to limit recovery on livestock which always must be shipped at their full value. The exception to this rule would only apply to cattle, goats, horses, mules, sheep and swine.

REGULATION OF COMMON CARRIERS

Any Common Carrier who operates across state lines is subject to regulations by the Interstate Commerce Commission (ICC).

Air Freight Carriers are subject to similar regulations by the Civil Aeronautical Board.

When a carrier=s operations are confined within state boundaries, it is not subject to the ICC but rather the Motor Carrier Acts, which most states have adopted. Carriers who only operate within a city or town, most states give control over to local police.

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Any carrier who engages in interstate hauling must obtain a certificate from the Commission. The Commission will require data about the carrier=s ability to perform the services it wishes to perform. It will also require the carrier to obey the rules of the ICC. The carrier must also prove that its service is needed by the public. Upon approval of the application, the carrier receives a certificate from the ICC.

The carrier will be required to file a tariff, a set of rules and rates under which it operates. The tariff will spell out the commodities which may not be shipped by the carrier. On the other hand, the ICC will numerate the acceptable goods along with the rates for each class of property.

The ICC also requires every carrier to carry insurance which would protect the carriers customers. This is known as Cargo Liability.

The ICC establishes minimum periods which must be allowed for filing of claims and bringing of suits against the carrier. There is a mandatory 9 month filing period for such claims but the claims may not be filed after 2 years.

The carrier is liable for the full amount of the loss or damage and is usually computed at the Market Value at the point of destination. If no established market price on goods is established, the invoice price between the buyer and seller will control. The carrier is allowed to deduct cash discounts only if it pays the loss within the cash discount period. Trade discounts may be deducted by the carrier, since the shipper would not ordinarily have received the amount of such discounts.

MOTOR TRUCK MERCHANDISE FLOATER CARRIER=S FORM

Transportation Insurance Policy Forms are extremely flexible and diverse. Instead of the common standardized policies that we see in different areas of insurance, Transportation Insurance may be written at the discretion of the underwriter. Thus, the type of insurance is usually developed and tailored to the needs of the individual risk.

The one overriding factor that a Common Carrier must deal with is the immense liability that is faced. Due to the Liability Exposure, Motor Common Carriers insure this risk under a Cargo Policy known as the Motor Truck Merchandise Floater - Carrier=s Form. Actually this insurance is required by carriers not only to protect them against loss but also because shippers will refuse to use their services unless they have this coverage. Cargo Liability Insurance is mandatory on all Common Carriers who operate in interstate trade.

The Cargo Policy does not insure the customers goods. Rather, it covers the Legal Liability of the trucker for any loss or damage to customer=s goods being carried by it. If the goods are lost or damaged and the carrier is liable for this loss, then the policy will pay (of course the loss settlement will take into consideration any exclusions and Limits of Liability). The Cargo Policy does not cover the Trucker=s Liability for all losses but rather only those for stated perils.

The Exclusions that the policy will not cover are:

! livestock, except when death is caused by an insured peril or when such a peril makes destruction warranted.

! jewelry, precious stones or other valuables

! eggs, except when they amount to more than 50% of each insured shipping package, but only for $200 maximum for all losses on one truck

! accounts, bills, currency, deeds, evidences of debt, money, securities, notes and other valuables

Because the Cargo Liability Policy is not a standard type of policy, the covered perils will vary. Certain perils are always stipulated in the policy and only the Trucker=s Liability for a loss by these perils is covered. The policy will cover the following perils:

! cyclone, tornado and internal explosion on the carrier

! flood and collapse of bridges

! fire and lightning

! perils of the sea while on ferries

! overturning of the motor vehicle

! collision

Usually the policy will only cover collision of the vehicle with other objects but not with the road or any earth surfaces, curbing, railroad rails or ties. The policy will exclude collision with any stationary object while backing to load or unload.

Keep in mind that several of the perils listed are Acts of God but for those losses to be covered, the insured must be legally liable.

***Terminal Coverage* -** all Common Carriers are liable for goods in their custody until they are delivered to their final destination. Often the trucker must place the goods on a loading platform or in a depot or terminal while awaiting loading, train shipment or unloading. The carrier is still liable for loss during these times.

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The Cargo Liability Policy only covers the trucker while the property is contained in or on the covered carriers. Because of the flexibility of the policy, it may be written to provide coverage while the property is temporarily removed from or awaiting loading on any truck insured under the policy, or on loading platforms or in depots and terminals. The policy will only limit such coverage from 24 to 72 hours.

As we have seen before, the policy has the same Basic Floater Exclusions with additional 5 exclusions. They are:

! Dishonest Acts of the insured=s employees

! loss caused by strikes, lockouts, labor disturbances, riots, civil commotions

! loss caused by wet or dampness

! neglect of the insured to use all reasonable means to save and preserve the property or after the occurrence of any disaster insured against

! loss caused by delay or loss of market. The Cargo Policy covers only when the property is in or on vehicles owned, operated or contracted for by the insured. The insured must list all motor vehicles which it operates and a Limit of Liability is set in the policy for each motor vehicle.

Usually permission is given to the insured to substitute vehicles but the insured must report these substitutions to the company. The Automatic Coverage only applies to substituted vehicles and not additional vehicles acquired after the policy goes into effect.

Much larger risks may be written without requiring the listing of each individual truck.

The policy offers coverage to the Limit of Liability but not more than the Actual Cash Value of the property at the time of the loss. Also, Cargo Insurance is subject to a 100% Coinsurance Clause which means the company=s liability for any loss is limited to the proportion that the amount of insurance on the vehicle involved bears to the insured=s total liability for all goods on that truck. Keep in mind that the amount of insurance that must be carried on any vehicle to meet the Coinsurance Clause is based on the extent of the insured=s liability on that truck, not the Actual Cash Value of the goods being transported. Also, the amount of insurance required is based on the liability for <u>all</u> goods on the truck, not only that of the individual owner involved in the loss.

As to Limit of Liability, the Cargo Policy carries a Limit of Liability for any one loss, regardless of the number of vehicles involved. If there is any other collectible insurance, only one policy will pay for the stated loss.

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COMPULSORY CARGO INSURANCE

As noted before, all Motor Carriers are required by the ICC to meet their obligation to the public. The ICC mandates that each carrier must furnish security of not less than $5,000 on any one vehicle, and not less than $10,000 for an Aggregate Loss for any one casualty. The trucker has 3 options to meet these requirements:

1. the trucker may post a bond

2. the trucker may purchase a Cargo Liability Policy of the mandated required amounts

3. the trucker qualifies as a self-insurer with intrastate truck shipments, and there is a wide range of state requirements. Most states require insurance with a dollar limit range of $1,000 to $10,000.

The Cargo Liability Policy carried by a Common Carrier will include an Endorsement which makes the insurance company liable for $5,000 on any one truck and $10,000 for any single casualty for all loss for which the carrier is liable. This Endorsement broadens the coverage and makes it an "All-Risk" Policy. With this Endorsement, the policy becomes liable for any loss for which the carrier is liable even if the peril is excluded from the Basic Policy. The Endorsement extends to cover any loss covered by dishonesty, pilferage, breakage, damage by water and any other loss except those which the Common Carrier is not liable for anyway.

It is important to note that when the insurance company does pay a loss under the provisions of the ICC Endorsement, it is entitled to reimbursement from the insured. The effect of the Endorsement is basically to guarantee the solvency of the Common Carrier up to $5,000 per vehicle and $10,000 for any one loss.

When the insurance company does pay a loss under the terms of the notice, the Endorsement may not be canceled except by giving 30 days notice in writing to the ICC.

PUBLIC LIABILITY REQUIRED FOR MOTOR COMMON CARRIER

Under the Federal Motor Carrier Act, every Common or Contract Carrier who transports passengers for hire in interstate commerce is required to carry Automobile Liability Insurance. The minimum amount of coverage depends on the seating capacity of the vehicle such as:

! seating capacity 1-12 - bodily injuries limits $100,000 - $300,000

! over 12 - bodily injury limits $100,000 - $500,000

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Keep in mind a Certificate of Insurance must be filed with the ICC. 30 days notice must be given to the commission when the policy is canceled.

Rate Determination - as noted, there is no standardization of rates or forms for Transportation Insurance. Each risk is judged by the underwriter on its own merits. There are 6 factors that the underwriters use:

1. financial solvency of the insured
2. area the insured works in
3. type of goods being transported
4. type of trucks being used
5. protective devices installed on the trucks
6. previous loss experience of the insured

Underwriters will also take into consideration the radius of the insured=s operations, with the lowest rate given for local haulers who confine their operations within a 50 mile radius. Obviously, a higher rate for the intermediate hauler is charged, those trucks cover a maximum 200 mile radius.

The highest rate will be for long-haul truckers who exceed 200 miles.

Requirements In Case of Loss **-** As noted before, the following are required:

! notice of loss

! suit against company

! sue and labor

! cooperation in case of suit. The insured may be asked by the company to aid in securing information and evidence and the availability of witnesses.

A loss is payable usually within 60 days after satisfactory proof of loss. The terms of the policy start at noon, Standard Time, at the place where the policy is issued. Cargo Liability Insurance is written for only 1 year at a time.

Reinstatement of Losses - Refers to the Cargo Policy which is reduced by the amount of any loss payment. Each reduction is automatically reinstated. The insured agrees to pay an additional premium on a Pro-Rata Basis for reinstatement.

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TRANSPORTATION INSURANCE

The questions of when Title to Goods passes from seller to buyer can be a very complicated, technical question. It is important to understand the basic aspects of this question. One must remember that the location of the title to the goods in transit will most often control the settlement of any losses. **Example:** *if title to the goods has passed to the consumer at the time of the loss, claims for such loss must be made under the Consignee=s Policy. However, if the seller has retained title to the goods in transit then the Seller=s Policy will rule.*

In general, title to property at any moment will depend on the mutual intent of buyer and seller. When the contract does not state anything different, the question of title will depend on the nature of the goods and the stated terms of sale.

Usually, the Contract of Sale contains some specific reference to when the title is intended to pass. Inland Transportation, the term most frequently mentioned is F.O.B.

F.O.B. - the term F.O.B. means "Free on Board" and definitely implies that the seller will deliver the property at its expense to a designated point. In reality, F.O.B. Point of Shipment simply means that the property will be delivered by the seller to the initial carrier and that the title to the property will pass to the buyer at this point. If the contract has F.O.B. as a stated location, transfer of the title to the buyer occurs when the property is delivered by the seller, at its expense, to the stated location.

A Contract of Sale may designate F.O.B. for certain freight cars at a given point. Possibly, a buyer may agree to a contract for purchase of certain property F.O.B. to the Buyer=s city and title to the property will remain with the Seller until the goods reach the designated city.

A Contract of Sale could call for goods to be shipped via a Named Carrier. If the Seller ships using another carrier, title to the property will remain with the Seller until the goods are delivered to the designated carrier or the buyer.

It makes no difference when Date of Payment for the property is made. Where property is delivered to the initial carrier under a F.O.B. Contract, determines when title passes to the Buyer.

Transportation Policy - Shipper=s Form (Transit Policy) **-** Once again there is no standard forms or rates for Transportation Insurance. Policies are tailored to meet the needs of the individual carriers, shippers or consignees. There are Basic Coverages in these Transportation Policies that are worth noting.

There are several areas of property that will not be covered:

- export and import shipments are excluded. (We will discuss this coverage under Ocean Marine Policy.)
- accounts, bills, currency, deeds, evidences of debt, money securities and notes are not covered
- shipments that have been refused or returned by the receiver are not covered.

Transit Policies are written on a Named Perils Basis. The Basic Policy usually will cover the following 10 perils:

- fire
- lightning
- collision
- derailment or overturn of a vehicle
- cyclone
- tornado
- flood
- contamination of goods by other goods being carried
- theft (but only of an entire shipping package)
- while waterborne, against any loss caused by fire and perils of the sea.

The Transit Policy excludes the usual Floater perils and also includes most Exclusions in the Cargo Liability Policy. Also the following Exclusions are added to the policy:

! loss or damage caused by capture, seizure, arrest, restraint, detainment, preemption, requisition or nationalization, or the consequences or any attempted threat.

! loss by breakage, leakage, marring or scratching unless caused by fire, lightning, cyclone, tornado, flood, collision and/or derailment and/or overturning of the vehicles, of while waterborne, by the vessel being burned, sunk, stranded or in a collision.

An All-Risk Transportation Endorsement may be issued to cover property in transit. These policies do not name perils insured against but cover All-Risks of Loss or Damage subject to stated exclusions.

COVERAGE POINTS

Transit policies are written to cover the property of the insured from the time the goods leave the factory, store or warehouse at the initial point of shipment until they are delivered to the store or warehouse at the destination point, all while in the due course of transportation.

The Policy will also cover property at:

! depots
! stations
! on platforms
! docks
! piers
! bulkheads
! wharves

Coverage can be extended for 90 days after reaching the consignee; or 120 days if the merchandise has been forwarded on consignment.

Coverage applies to property only within the U.S. and Canada. There are different forms which are attached to the Transportation Policy to provide coverage on the various types of carriers.

Form "A" **-** This form provides coverage for loss to property while in the custody of the following:

1. any public truckers, land transfer or land transportation companies, provided these carriers are used in connection with railroad and steamer shipments

2. any railroad or railroad express company

3. any regular coast-wide ship lines between Inland Atlantic Coast and Gulf ports. The policy excludes the Great Lakes, the Mississippi and Ohio rivers and their tributaries, any canal, and the Pacific Coast.

<u>Form “B”</u> **-** This form is identical to the Form “A” except it does not cover any coast-wide ship lines.

As many businesses ship large quantities of merchandise by Motor Truck Common Carriers directly to their customers, these types of Endorsements greatly expand their coverages.

<u>Form “C” - Owner= Goods On Owner=s Trucks</u> **-** When an owner ships his merchandise on his own trucks, a special form is attached to the policy known as “Form C”.

With this Endorsement, the insured is required to list each truck with an amount of insurance applicable to the truck.

Only 10% of the amount of insurance applicable to any truck will apply to the loss of wines, spirits and other alcoholic beverages. 10% is applicable to cigars, cigarettes, tobacco, furs and silk.

Loss or damage to paintings, statuary or other works of art is covered only if the absolute total loss, and only if the loss, was caused by fire or lightning. In no event will the Loss Settlement exceed $250 for any one casualty.

Transit Policies stipulate that goods shipped for the insured=s account will be valued at the actual invoice cost plus such costs and charges they have accrued.

Goods which have been sold by the insured will be valued at the amount of the insured=s selling invoice plus any prepaid freight.

If goods are not shipped under invoice, they are valued at the Actual Cash Market Value at the point of destination on the date of the loss. These policies will be liable for the actual amount of any loss at the time and place of the loss.

The Transit Policy does not contain any Limit of Liability for loss on any one vehicle. A Limit of Liability is established only for the total losses in any one casualty.

There is a Machinery Clause that states, when the property shipped is a machine that consists of several parts and one part of the machine is damaged, then the company is liable only for the value of the part damaged.

If the labels or wrappers of shipped goods are damaged, the policy will pay only for the cost of new labels or wrappers and the cost of reconditioning the goods.

Also, if there is other insurance covering the same property, the Transit Policy is liable only for any excess of the loss over the amount of the other insurance.

Premium Determination **-** There are no standard rates for Transit Policies. Again, underwriters take into account the type of commodity shipped and the way in which it is packed and handled. Also, the underwriter evaluates the type of carriers used, the distance the goods are shipped and the kind of arrangements that are entered into between the insured and any of its carriers. The premium is based on the aggregate amount of all shipments that are made under the Policy, and is calculated by multiplying the rate per $100 of shipments times the volume of the shipments.

Smaller risks, whose shipments remain at a consistent level throughout the year, are written for a flat annual premium. At times, the volume of shipments tend to fluctuate and at this point in time, the policy may be written on an annual reporting basis.

The insured would pay a premium at the beginning of the policy which would be based on the estimated volume of shipments for the year. At the end of the policy year, the insured would report to the company the value of all shipments that were actually transported under the policy. If the premium proved to be too low, then the insured would simply pay the loss or damage.

Additional Premiums - If the premium proved to be too high, then the insurance company would reimburse the insured.

Larger risks are always written on a monthly reporting basis. The insured is required to forward monthly reports of the shipments made under the policy.

REQUIREMENTS IN CASE OF LOSS

Notice of Loss - the insured is required to give immediate notice of any loss or damage.

Proof of Loss - the insured must file proof of loss within 4 months from date of loss.

Suit Against the Company - no action may be taken against the company until the insured has complied with all the requirements of the policy, but not later than 12 months after the loss or damage.

The insured must bring a suit against the company within 12 months but it cannot be restricted to less than 2 years to institute a suit against a Common Carrier in Interstate Commerce.

Loss Payment - losses must be paid within 30 days after proof of loss has been submitted to the company.

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Reinstatement of Losses - the policy provides for automatic reinstatement of losses paid. The insured is required to pay an additional premium on a Pro-Rata Basis for the reinstatement. The clause does not apply to policies written on a Reporting Basis.

Both the ***Sue and Labor Clause*** and ***Benefit*** of ***Insurance Clause*** have been previously discussed.

TWO OTHER CLAUSES

Term of Policy - the policy starts at noon, Standard Time, at the place where the policy has been issued. Policies may be written for one year or on an Open Basis with no expiration date.

Cancellation - The insured or the company may be canceled. The company is required to give 15 days notice in writing. The policy may not be automatically canceled if the premium is not paid within 60 days after the start of the policy.

MISCELLANEOUS TRANSIT POLICIES

There are 3 other Transit Policies -

! Trip Transit Policy

! Department Store Floater

! Railway Express Transit Policy

Trip Transit Policy - covers a single shipment. The policy could be written to cover property in temporary storage and in often written for private individuals who send their furniture and household goods to a storage location before moving.

Department Store Floater - this policy provides broader coverage as department stores will cover their goods while in transit. The policy covers property while in the hands of Common Carriers, truckers, on the insured=s trucks, and in the custody of messengers.

Railway Express Transit Policy - Businesses that ship all their goods by Railway Express will use this Special Transit Policy. This policy provides broader coverage than policies that are usually offered to shippers who are Common Carriers.

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CHAPTER 12 QUESTIONS

1. A key component in the Inland Marine Insurance industry is what type of insurance coverage?

a. Ocean
b. Transportation
c. Commercial
d. all of the above

2. All of the following are examples of Transportation Insurance except:

a. goods moved via air freight
b. goods moved by public trucking
c. goods that are moved by rail
d. goods that are moved by auto

3. Anyone who holds themselves out to the public as a carrier of goods for hire is considered a:

a. Common Carrier
b. Bailee Carrier
c. Private Carrier
d. Air Freight Carrier

4. What carrier is usually liable for loss or damage to goods?

a. intermediate carrier
b. shipper
c. initial carrier
d. forwarder

5. The meaning of "Goods Delivered" is usually dictated by?

a. customs of the insurance company
b. standardized customs for the industry
c. customs of parties involved
d. customs of that industry

answers

1. b
2. d
3. a
4. c
5. d

CHAPTER 13 – OCEAN MARINE INSURANCE

INTRODUCTION

Probably the oldest form of Property Insurance is Ocean Marine Insurance. Many of the coverages of Inland Marine Insurance grew out of Ocean Marine Insurance. We will first discuss Basic Law and Customs used in Ocean Marine Commerce and conclude the Chapter with a look at the Marine Cargo Policy, Cargo War Risk Policy and Hull Insurance.

THE BASICS

Remember that a steamship company will be responsible for damage to cargo only when the negligence occurs when loading, unloading or stowing the vessel. It will not be responsible for any loss or damage caused by perils of the sea or errors of navigation. Of course, these rules of Liability may be changed by the contract between the Shipper and the Carrier. One fact always remains, goods moving across the seas will be exposed to potential financial loss. This high degree of risk will be shifted from the lending institution, importer or exporter to the insurance company.

The shipowner must be careful also as one shipment could run into millions of dollars. The Marine Policy is used to protect both the interest of the Shipper (Cargo Policy) and the Shipowners (Hull Insurance).

THE PASSING OF TITLE FROM SELLER TO BUYER

One of the most important concepts of Marine Insurance is when title to the cargo passes from the Seller to Buyer. As we have seen before, location of title depends on the agreed intent of both the Buyer and Seller. There are 5 terms that must be understood to deal with this area:

1. ***Expoint of Origin*** - these agreements will designate a factory, warehouse, assembling plant or some other similar location that requires the Seller to place the goods at the Buyer=s Disposal on a certain date. The goods will come under the Buyer=s interest at this point and will then be the Buyer=s risk. At this point it does not matter if the Buyer actually takes physical possession or not. With these agreements, the Buyer will require insurance that will start at the time and place designated.

2. Free on Board (F.O.B.) - This agreement simply means that title to the goods passes when the goods are actually loaded on the designated carrier. After this point, the protection of the goods are at the risk of the buyer.

3. ***Free Alongside (F.A.S.)*** - these agreements requires the Seller to deposit the goods alongside a named vessel or on a designated dock. The Seller will be responsible for the property until it is delivered. At delivery, the Buyer=s risk begins.

4. ***Cost and Freight Named Point of Designation (C.A.F.)*** - With these agreements, the Seller includes in the price the cost of transportation to the designated point, but not the cost of insurance, which is arranged by the Buyer. The Seller is responsible for the goods only until they are delivered to the ocean carrier.

5. ***Cost, Insurance and Freight*** - with this agreement the selling price includes the cost of the book, the shipping charges and the cost of the Marine Insurance. Since the seller provides and pays for the Marine Insurance, the goods are at the sellers risk until delivered to the carrier. The seller must also purchase War Risk Insurance but this insurance is paid for by the Buyer.

QUESTION OF GENERAL AVERAGE

When a ship is in danger, the Captain must make difficult choices in order to save the ship. Often it will become necessary to throw overboard some of the cargo or deliberately damage the ship=s machinery or equipment. When these losses occur, we are discussing **General Average**.

General Average basically means the voluntary sacrifice of the goods of some of the owners benefits whose cargo is on the ship and the shipowner whose vessel may be saved by taking these drastic steps. If the Captain tries to save the ship by putting increased strain on the engines or cuts away masts, then a General Average situation exists. Also, huge expenses created to safeguard the ship (such as towing, salvage, and special port dockage) would be considered General Average.

Keep in mind that laws vary according to countries and sometimes states but there are 4 Basic Agreements when it comes to General Average:

1. None of any persons interested in the venture can have contributed to the loss.

2. There must be peril to all the interests involved which would include cargo, hull and freight.

3. Sacrifice must be voluntary and all special expenses incurred must be reasonable.

4. The efforts must result in the preservation of part of the venture. If the sacrifice proves to be useless and the entire project is lost, there is no General Average.

Every country has laws that will apportion and share among all those who benefited by the sacrifice (thus, averaging out).

Keep in mind that no special agreement is necessary to make a party liable for General Average Losses. The idea of General Average has been deeply rooted in the Marine Law of every country and contribution in General Average is required whether one party is insured or not.

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Under the Basic Form of Contract agreed to by a shipowner, the shipowner is not entitled to receive freight charges unless the voyage is completed according to plan.

MARINE INSURANCE

The Marine Policy, which is used to insure cargo owners and ship-owners, is essentially the same. The Cargo Policy will be discussed first.

STANDARD MARINE POLICIES

It is important to remember that there is no regulation of marine rates or insurance forms. Each underwriter will negotiate the contract they feel suitable for that particular situation. Since Marine Insurance has been present in the marketplace for centuries, there can, at times, be some confusion over terminology in the language used. The positive aspect of such a situation is that just about every phase has been subject to many court interpretations thus making the application of the policy quite understandable in this day and age.

The Marine Cargo Policy - What Is Covered? **-** These policies may be written to cover any type of movement of legal goods. The property to be insured is simply written as to cover "Goods and Merchandise". Exceptions to the "Goods and Merchandise" definition would be the following:

- poultry
- game
- refrigerated meats
- frozen foods
- livestock
- bouillon
- any other property the underwriter decides to exclude from coverage

The Marine Policy may also be written to cover import duties and freight charges. Freight may also be insured by the shipowner who could lose all profit if the voyage is not completed for some reason.

The Marine Policy, whether it covers a cargo or a vessel, will also include General Average charges for which the insured is liable.

Sue and Labor Coverage - As discussed previously, the insured is obligated to take all possible means to preserve the property from any further loss and to seek its recovery. The policy will reimburse the insured for any expenses incurred in the fulfillment of such duties.

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Sue and Labor expenses often reach huge figures. As one can imagine a wide variety of expenses could be needed to help save the ship and its cargo. Also, expenses may rise if the preservation of property requires that the vessel is forced to put in at a port of refuge and the Captain forced to purchase extra supplies for livestock on board, etc. This expense would be covered under the Sue and Labor Clause.

Recall that the Captain of the vessel acts as the agent of the cargo owner and has the authority to take all reasonable means and also incur any necessary expense to protect the property while in transit. All Sue and Labor expenses are payable under the policy when they are incurred to protect and preserve the property from an insured peril. All Sue and Labor charges are payable in addition to any amount used under the policy for a total loss.

Hazards That Are Covered - Generally policies will cover 9 perils.

1. ***Perils of the Sea*** - typical perils of the sea would be sinking, stranding, collision with other vessels, heavy weather, damage by seawater, etc. Of course, perils of the sea must be caused by the uncontrollable action of the sea and not caused by any negligence of the Captain or crew.

2. ***Fire*** - the policy will cover this risk if there is not inherent vice of the goods. Certain cargo such as coal should not be loaded in a damp condition, which would cause it to be combustible.

3. ***Jettison*** - throwing cargo overboard is covered when done to protect property from any further loss. Obviously, if goods have spoiled and are dumped into the ocean, there would be no coverage.

4. ***Assailing Thieves*** - petty thievery will not be covered under the policy, while theft that is accompanied by violence would be.

5. ***Explosion*** - most policies will cover the risk of explosion whether it is on land or sea.

6. ***Barratry of the Master*** - Barratry, which means violation of trust, of the Captain would be covered.

7. ***Latent Defects In Machinery/Hull, Appurtenances*** - Marine Policies will cover damage caused by bursting of boilers, breakage of shafts or thru any latent defect in the machinery, hull or equipment. Also, if faults and errors in navigation or management of the vessel are made, coverage is also provided.

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8. ***<u>All Other Perils</u>*** - the policy uses the following clause All Other Perils which shall come to the hurt, detriment or damage of the goods. It appears that the policy would cover against All-Risks but this is not the case. The above clause only means perils that are insured against.

9. ***<u>Optional Hazards That Could Be Added</u>*** - As we have seen before, there are a number of perils that are excluded, but in reality these perils may be covered thru proper endorsements, there are 4 Basic Exclusions in the Marine Policy:

- dampness and breakage
- delay - loss of market
- Acts of War, confiscation, detainment, revolution
- strikes, riots, civil commotion

<u>Coverage Areas</u> - Marine Policies are usually written on a Warehouse to Warehouse Basis. This means that property is covered from the moment it leaves the shipper=s property until delivered at the warehouse of the named consignee. Thus, after the goods leave the ship, the coverage on land is limited to 15 days or, if the destination is outside the port, limits it to 30 days.

Coverage only applies to the goods while they are in due course of transit. This means that the progress of the goods must be continuous and move in the ordinary course of transit. At times, it is necessary for the shipper to stop the continuous movement in order to relabel, repack or allow buyers or banks to examine. In these cases, the policy may be extended to cover these interruptions.

<u>Extension Clauses</u> - the effect of such clauses is to widen the coverage to include delay, reshipment or forced discharge. In reality, these clauses eliminate the continuous movement required, and the 15 or 30 day limit after goods are discharged.

<u>On Deck Shipments</u> - this clause means that coverage pertains to shipments under deck and not for shipments that are carried <u>on</u> the deck of a vessel. Of course, if notice is given to the underwriter these goods could be covered.

The vessel transporting the goods must be iron or steel steamers and not sailing vessels.

Seaworthiness of the Vessel - is an implied warranty in the policy. This simply means that it is understood that the ship be suitably constructed and properly equipped. Also it must be manned, fueled and properly prepared for the type of voyage it is about to embark on.

No Deviation Clause - this means that once the risk has begun, there will be no substitution in the voyage or deviation from the agreed upon course. The only deviation considered would be the necessity of changing course due to unusual weather or by circumstances over which the Captain or Shipowner has no control. An acceptable change would be the effort to save human lives or to obtain medical or surgical help for persons on board. Any other change will void the policy.

Another important consideration is that since shippers are not in a position to exercise any control over the navigation of the vessel on which goods were placed, then the insurance will not be voided by any deviation since the insured had no knowledge of such changes.

Prompt Attachment Implied Warranty - without permission of the company to extend the stated period, it is assumed that the voyage will start within a reasonable time. If this does not occur, then the policy will be voided.

COVERAGE AMOUNT

Marine Insurance is written on a valued basis. Both the insured and the company will agree on the value of the shipment. This agreement will bond both parties and neither party can contest the value unless it can be proven fraud was involved.

Probably the most popular valuation clause is where the policy will agree to value the goods "at invoice cost plus 10% plus freight". At times, goods may be subjected to fluctuations in price and the policy may agree to value the goods at the highest market value that was attained during any point of the voyage.

Coinsurance - the settlement of losses in the Marine Policy is always based on the agreed valuation of the goods. If partial loss occurs, then the insured=s recovery will be measured by the extent of damage to the goods.

Particular Average - obviously the definition of average means "loss that is less than total". Particular average refers to any loss, which affects only a particular interest, unlike General Average, which affects all interested parties in the voyage, particularly average hones in on specific interests.

AVERAGE CLAUSES

Marine Policies contain some types of "average" clauses which will limit recovery on partial losses. Some of the average clauses are:

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! Memorandum Clause

! With Average (W.A.)

! Free of Particular Average (F.P.A.) English conditions

! Free of Particular Average (F.P.A.) American conditions

! Abandonment

! Machinery or Manufactured Goods

! Other Insurance

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CHAPTER 13 QUESTIONS

1. When would a steamship company be held responsible for damage to cargo?

a. navigational errors
b. stowing the vessel
c. storm at sea
d. cargo damaged at sea

2. Heavy weather and damage by seawater would be covered under what hazard:

a. jetliner
b. explosion
c. optional hazards
d. perils of the sea

3. Marine Policies cover the following:

a. goods and merchandise
b. itemized property
c. freight fees
d. none of the above

4. Which policies are written on a "Warehouse to Warehouse" basis?

a. Cargo
b. Ocean Marine
c. Marine
d. Hull Insurance

5. Who is liable for General Average charges?

a. shipper
b. insured
c. buyer
d. none of the above

answers

1. b
2. d
3. a
4. c
5. b