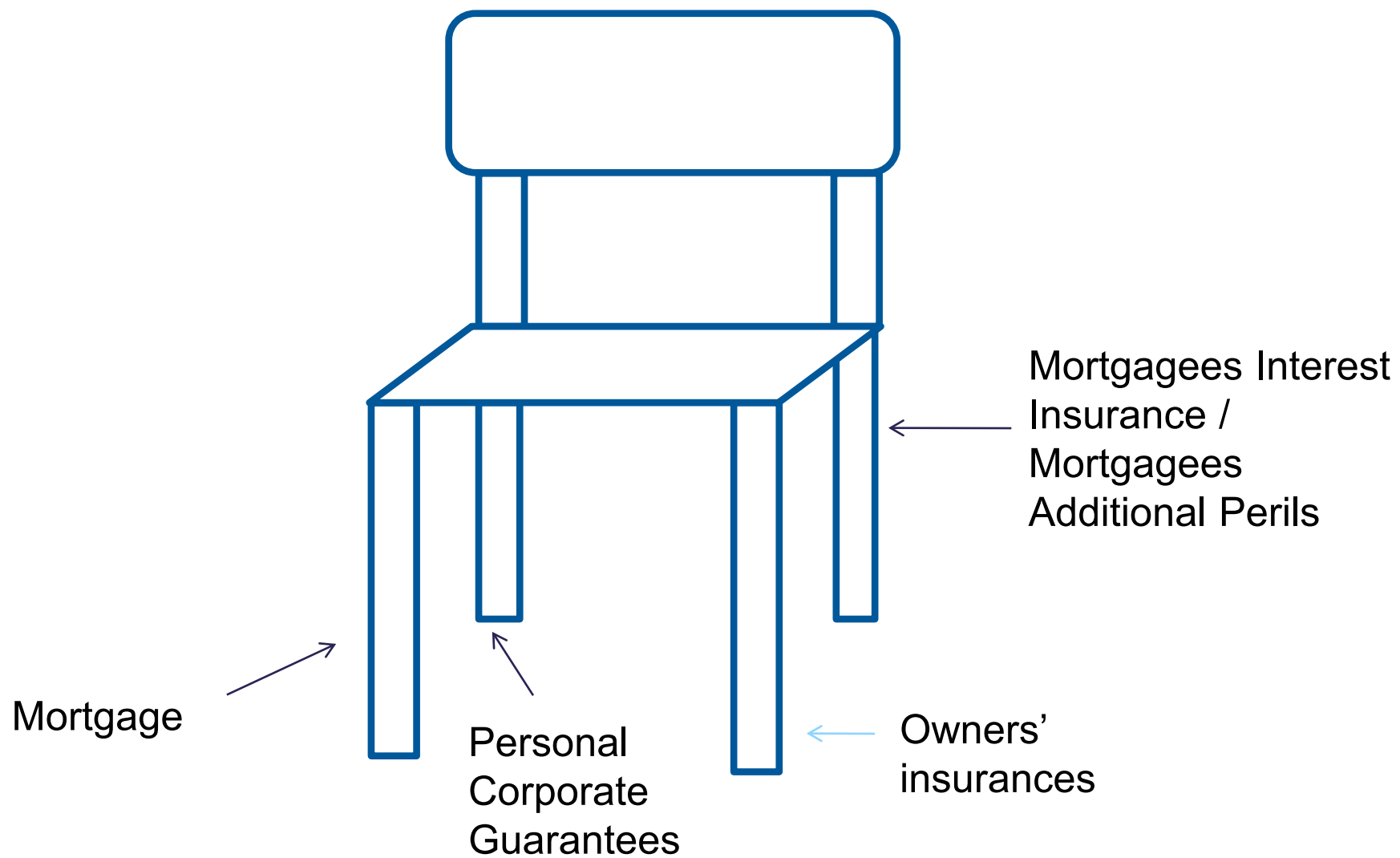


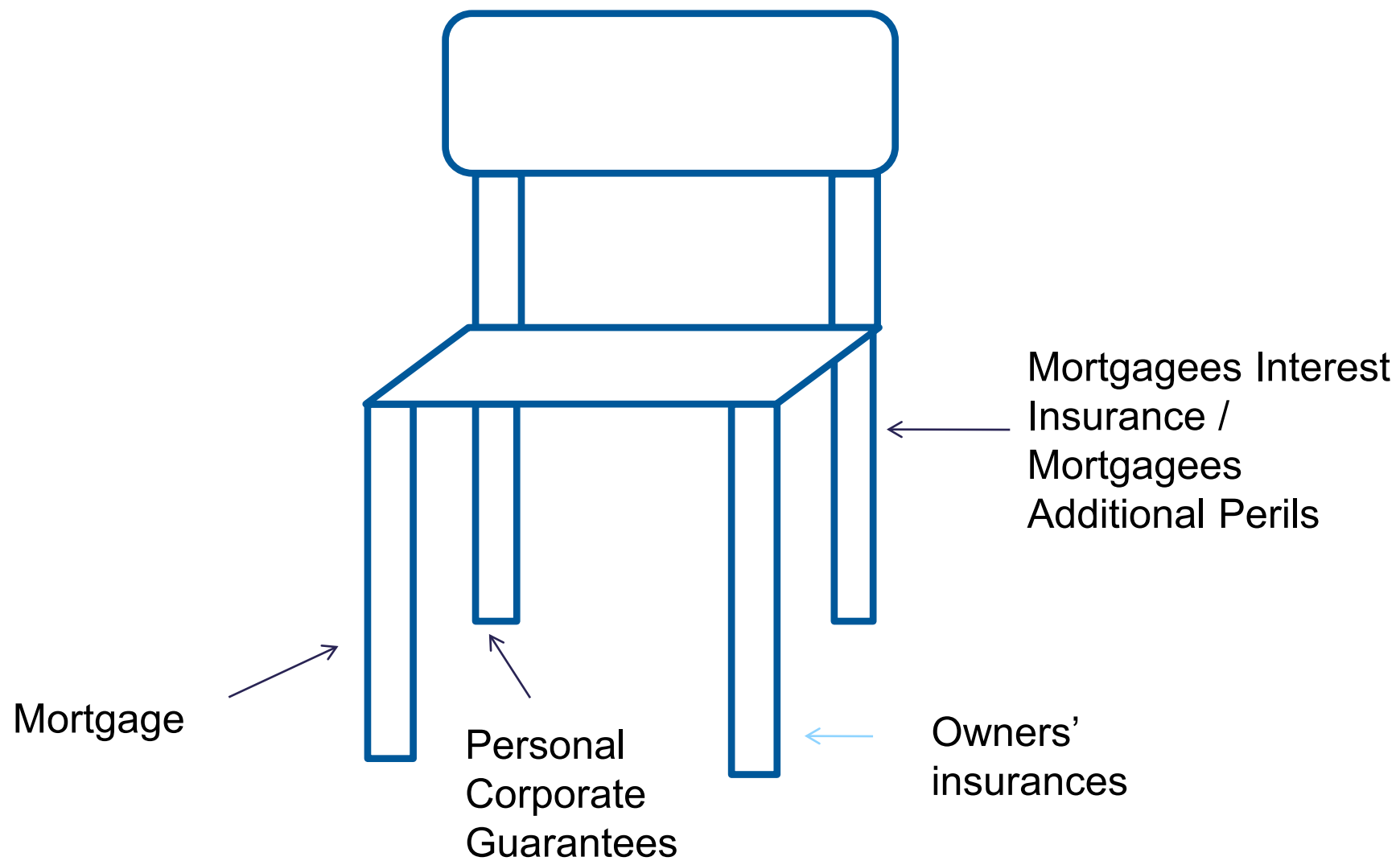
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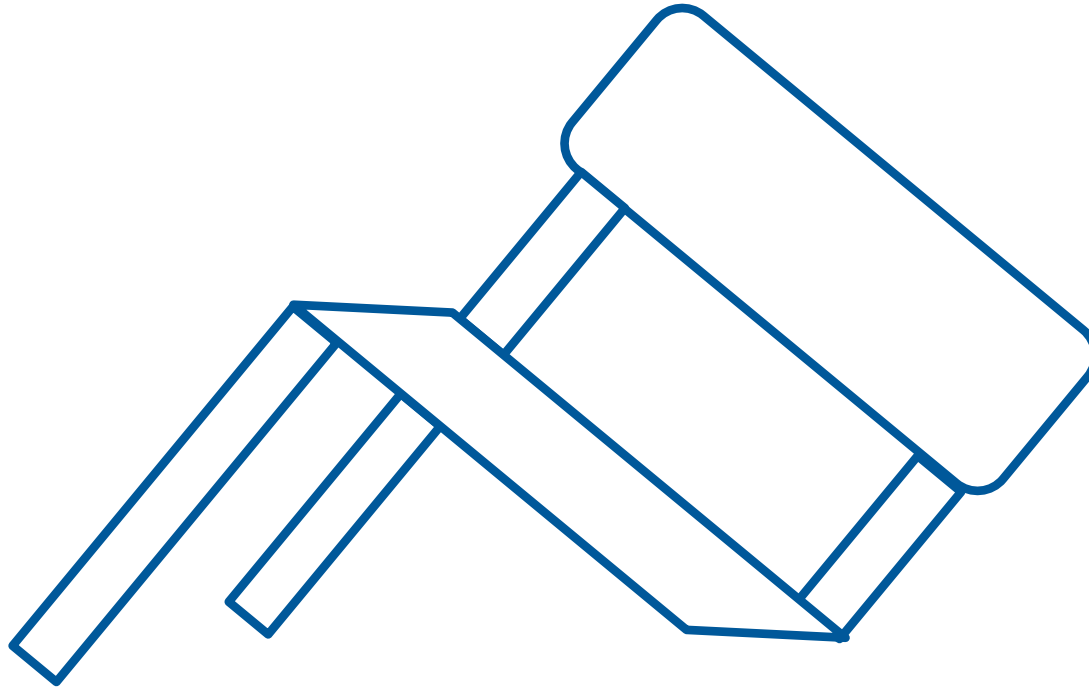
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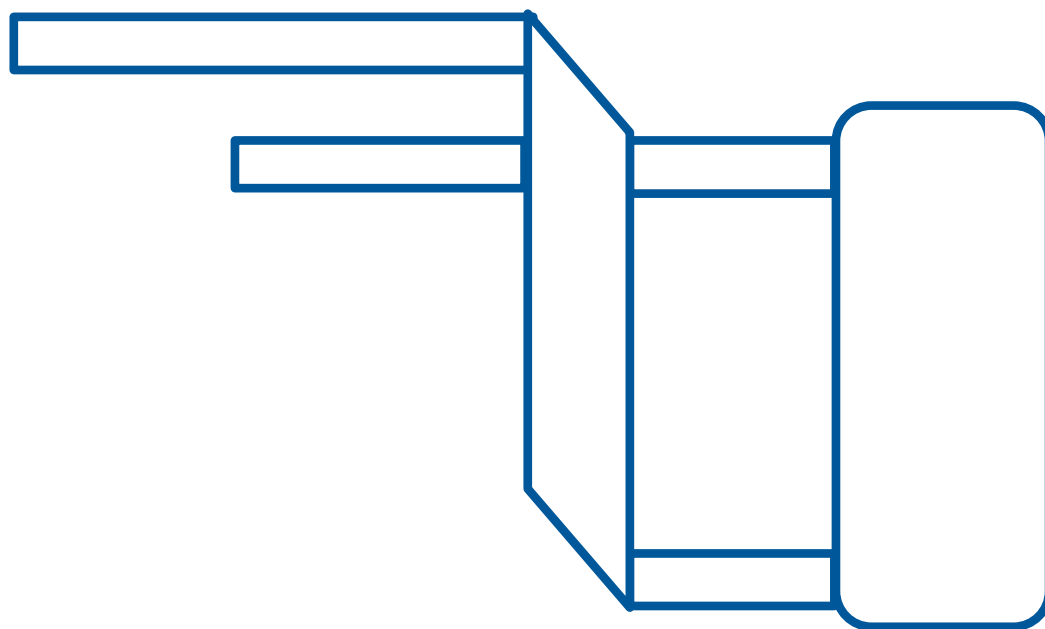
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Insurance as part of the Security Package









TYPES OF COVER REQUIRED

Hull & Machinery

War

P & I (Liability)

HULL

- Physical loss or damage apart from an element of collision and contact (FFO) cover
- Institute Time Clauses (Named perils)
- Italian Camogli Clauses
- American Institute Hull Clauses (Named perils)
- Nordic Marine Insurance Plan of 2013 (Version 2016) (All Risks)
- German ADS/DTV clauses (All risks)

BASIC PERILS

- Fire - explosion
- Perils of the Sea – would include heavy weather, grounding and damage received in collision/contact
- Violent theft
- Piracy
- Earthquake, volcanic eruption, lightning
- Accidents in loading, stowing and discharging of cargo

BASIC PERILS (cont'd)

- Latent defects, bursting of boilers and breaking of shafts
- Collision Liabilities split $\frac{3}{4}$ and $\frac{1}{4}$
- Barratry of Master, officers or crew
- Crew Negligence
- Repairer's negligence

The only section of Hull and Machinery cover which covers liabilities is in respect of collision with other vessels and contact with objects. The extent of cover varies

English clauses	3/4	Liability for collision with vessels	No liability for contact with fixed and floating objects
American clauses	4/4	“	No liability for contact with fixed and floating objects
Nordic plan	4/4	“	Fixed and floating objects included
German clauses	4/4	“	Fixed and floating objects included

Must have a signed and dated Notice of Assignment
endorsed on the Policy

Who is assured?

Who has assigned?

Beware Managers!!

Beware Bareboat Charterers

INSTITUTE WAR AND STRIKES CLAUSES 1/11/95

CLAUSE 1 PERILS (Paragraph 1.3 of the Loan Covenants)

- War, civil war, revolution and rebellion
- Capture, seizure, arrest, restraint, detainment
- Terrorism
- Malicious damage
- Strikes riots and civil commotion
- Confiscation or expropriation

CLAUSE 3

Detainment

Capture, seizure, arrest, restraint, detainment, confiscation or expropriation for continuous period of 12 months gives a CTL.

CLAUSE 5

Exclusions

5 powers war

Piracy

Capture etc by country of registry

Ordinary judicial process

Breach of customs or trading regulations

Financial causes

CLAUSE 6 TERMINATION

7 days notice

Automatic 5 powers war

WAR RISKS TRADING WARRANTIES

- Areas of hostility are excluded
- Additional premium is due to trade to those areas
- Usually underwriter will give 7 days cover for a vessel to enter, discharge and leave
- When new hostilities break out underwriters will give 7 days notice of cancellation and automatically reinstate cover with the new area added as an exclusion

- P&I is not included in the War Clauses
- Cover should always be extended to include liabilities – in particular liabilities to crew
- Cover should be up to a separate limit of the vessel's hull value
- P&I cover should always extend to include liabilities flowing from terrorism



P&I is usually arranged by entry into a mutual club
where shipowners pool their claims

Each club will be run by an appointed manager who
will set premium (calls) and decide on
recoverability of claims

Alternative to mutual P&I is Fixed Premium with a
low fixed limit of liability

MUTUAL P&I FOR MORTGAGEES

Never be a member

Assignment is not possible

Retroactive cancellation

Supplementary calls

Time on risk cover not available

You can tell the owner by the Club

MUTUAL P&I FOR LESSORS

SPV set up to own the vessel will have to be a member

Liability for premium/call for that SPV but benefits of membership outweigh that downside

You should ensure parent bank/lessor is not named as a member

Major P&I coverage

Balance of collision liability

Fixed and floating objects

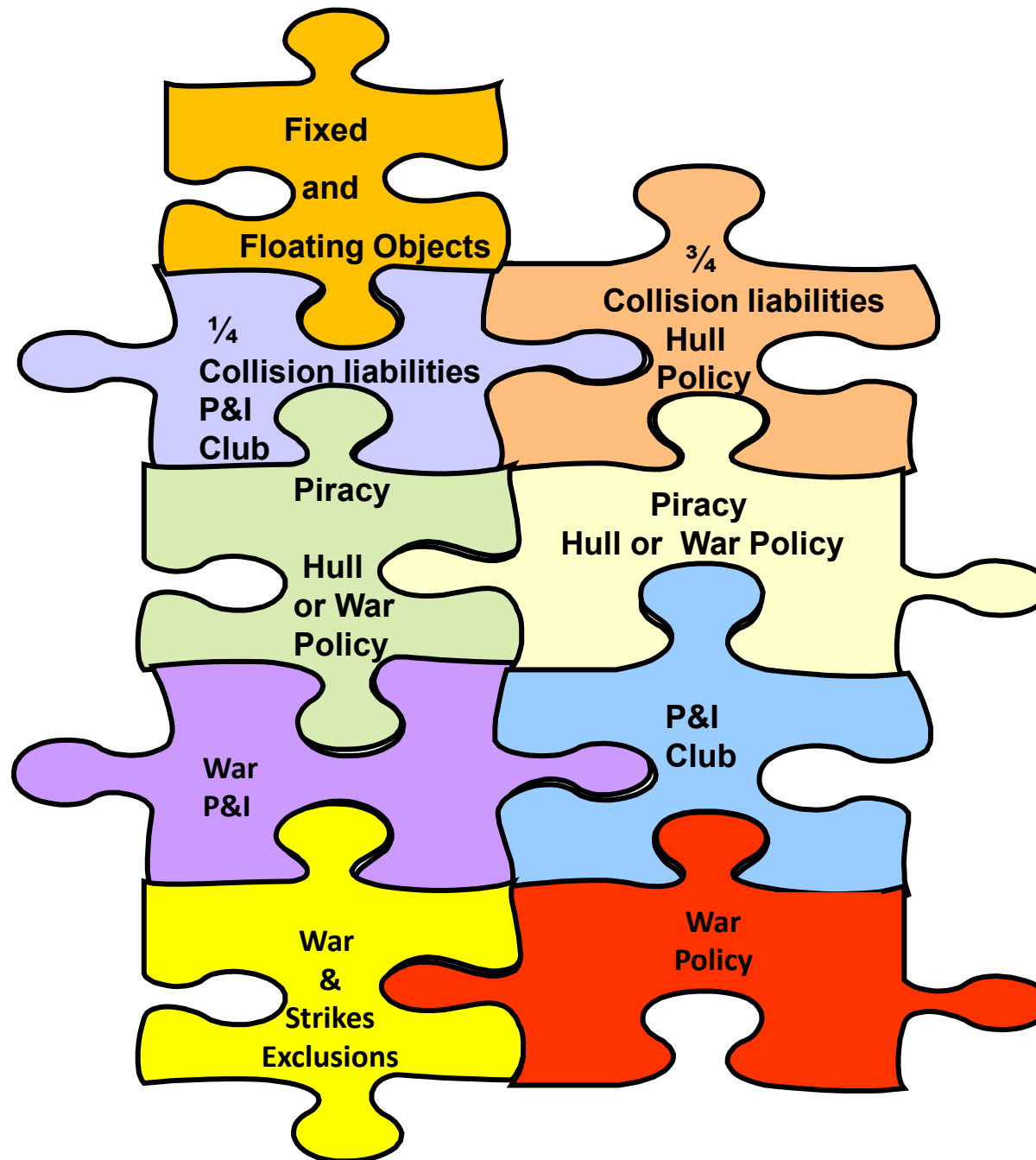
Liabilities to cargo

Liabilities to crew

Pollution

- Excess war P & I
- Currently there is a suggestion that the mainstream P&I clubs will extend cover to include war P&I from ground up.

Wreck removal



What can go wrong on owners policies?

- Breaches of warranty or condition
- Non-disclosure and misrepresentation
- Casting away / deliberate damage / action of owners and charterers
- Inability to prove total loss by a peril insured against
- Fraudulent devices
- Unseaworthiness:- Time policies must be distinguished from Voyage policies
- Time bars
- Lack of due diligence
- Termination, cancellation and suspension

Because of these issues MII cover was introduced
to protect innocent mortgagees

- Cover must be purchased by the bank not the owner
- Cover is potentially prejudiced if arranged by the owner
- e.g. “Mustafa Khan”

- Cover must include as named perils deliberate damage and casting away
- It must not be limited solely to losses which are prima facie covered by owners policies

Never insure on the Institute Mortgagees
Interest Clauses

NO REALLY!

**NEVER INSURE ON THE INSTITUTE
MORTGAGEES INTEREST CLAUSES!**

- All MII policies have warranties

- Warranty that the owners' policies and club entries are for an amount not less than the MII sum insured

- Warranty that the bank's interest is noted in the owners' policies
- What about K&R cover?

- A warranty that owners must take out cover on terms equivalent to certain named insuring clauses

- But what needs to be equivalent?
- Perils?
- Warranties?
- Conditions?
- Exclusions?

- How much will be paid:- least of
 - (a) Outstanding loan amount
 - (b) Sum insured declared
 - (c) Amount not paid by owners underwriters
- It must be paid irrespective of any other security held
- Payment must be after an agreed period of time

- Time for payment
- When does it start?
- Must start from date of demand by the owner
- How long to wait?

DISCLOSURE TO MII UNDERWRITERS

What to disclose?

- The bank's record
- The owner's record
- The State of the loan
- The underlying insurances including security
- The priority of the mortgage

- Duty of assured clauses
- Impose an obligation on the bank as assured to minimise losses
- This must be restricted to the owners' policies and club entries and cannot include any other security

- Subrogation
- In the same way as Duty of Assured clauses are restricted then so must subrogation also be restricted to owners' policies and club entries.
- No access must be given to any other security

MORTGAGEES ADDITIONAL PERILS (POLLUTION)

- MII cover pays when owners' policies do not
- MAP cover pays when owners' policies pay – but do not pay enough
- P&I limits for pollution from oil are typically US\$1 billion.
- P&I Clubs also have rules which limit their exposure to the vessel's limitation fund where the owner is entitled to limit liability.

- If amounts covered for oil pollution are insufficient the vessel may be confiscated or claim proceeds seized
- Both will result in a loss to the mortgagee

There will be warranties included in respect of the level of pollution cover the owner needs.

Compliance is easy if a vessel has a
usual entry in an IGA club

But what if they don't?
Warranty needs to be amended

MAP CLAIMS

There have only ever been 2 MAP claims – neither paid yet

Both are the result of collisions in China where the clubs in question only paid the applicable limitation fund and not the full clean up costs.

- Take care with MAP on FPSO's/Offshore assets
- Take care with MAP when a Combined Single Limit (CSL) is used

Marine Money Ship Finance Academy

New York

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