

**ASSOCIATION OF AVERAGE ADJUSTERS**

**ASSOCIATE EXAMINATIONS, APRIL 2008**

**MODULE 1**

**MARINE INSURANCE ACT 1906**  
**AND RELATED PRINCIPLES OF INSURANCE**

(2½ HOURS)

Note: All 16 questions are compulsory. There is a total of 100 marks for this paper

1. The Marine Insurance Act 1906 indicates four circumstances in which the assured can claim an actual total loss. What are these? (4 marks)
  
2. (a) What is the difference between an express warranty and an implied warranty? (5 marks)  
  
(b) Name two types of implied warranty contained in the Marine Insurance Act 1906. (4 marks)
  
3. Briefly define the term “insurable interest”. (4 marks)
  
4. (a) When placing an insurance, what kind of information must the assured provide to the insurer? (3 marks)  
  
(b) What principle should govern all the dealings between an assured and the insurer in connection with a marine insurance contract? (3 marks)
  
5. Under the Marine Insurance Act 1906, where a ship is damaged but not totally lost, what is the measure of indemnity? (7 marks)
  
6. In the context of a claim for Constructive Total Loss of a ship:  
  
(a) How is the position of the assured affected if his Notice of Abandonment is declined by the insurer? (3 marks)  
  
(b) What do you understand by a “writ clause”? (3 marks)

7. What do you understand by “proximate cause”? (4 marks)
8. Whilst encountering severe heavy weather a vessel’s main engine breaks down due to wear and tear. Repairs are impossible at sea and, in view of the danger of the vessel foundering, tugs are engaged under Lloyd’s Open Form of Salvage Agreement. State whether underwriters on ship are liable in terms of the Marine Insurance Act for the subsequent salvage award against the vessel and briefly explain your reasons. (4 marks)
9. (a) A vessel strands and is seriously damaged. The estimated cost of repairs to the vessel exceeds the insured value. The owners elect to repair rather than claim a total loss. Can they do so? Explain your reasons. (4 marks)
- (b) During the repairs to the above damage the vessel caught fire.
- (i) Assuming that the estimated cost of fire damage alone exceeds the sum insured under the policy, could the assured decide not to abandon the vessel to the underwriters and still claim as a Constructive Total Loss? Explain your reasons. (4 marks)
- (ii) Assume that the assured claimed a Constructive Total Loss on account of the fire damage. Is he also entitled to the cost of repairs to the parts of the stranding damage that had been effected when the fire occurred, and the estimated cost of repairs still to be effected? Explain your reasons. (4 marks)
10. (a) A policy of insurance on ship is subject to Institute Warranties dated 1/7/76 wherein one of the warranties is “warranted not to go in Greenland waters”. The vessel was insured for 12 months from 1/1/2007 to 31/12/2007. Due to an insured peril the vessel ran aground whilst off Falmouth on 31/10/2007 and sustained extensive damage to her bottom. It is noted that on 30/6/2007 the vessel had sailed in Greenland waters. Can the shipowners recover in respect of the loss due to stranding? Briefly explain the reasons for your answer. (4 marks)
- (b) Are there any circumstances where a breach of warranty may be excused? (4 marks)
- (c) A vessel is insured under a standard hull time policy. The Master takes on board a friend to replace the First Officer who had fallen ill and was hospitalised. The friend did not have any current formal qualifications and while he was on watch the vessel grounded due to navigational error. Is the insurer liable if:
- (i) The Master had not revealed the replacement’s lack of qualifications to the owner? (3 marks)
- (ii) If he had done so? (3 marks)

11. A vessel is insured for US\$ 10,000,000 so valued but, when a casualty occurs with the ship in ballast the market has risen so that she is worth US\$ 12,000,000. The casualty involves a salvage award against the ship of US\$ 3,000,000.
- (a) What would be the claim under a standard policy in respect of salvage? (3 marks)
- (b) What would be the claim in respect of damage repairs costing US\$ 500,000? (3 marks)
12. A cargo of bananas is delayed in arriving at destination when the vessel in which the cargo was shipped is involved in a collision. This causes a loss on sale of the bananas because of their over-ripe condition. As the loss was in consequence of the operation of an insured peril, can the assured recover this loss from their cargo underwriters? Briefly explain the reasons for your answer. (4 marks)
13. A loaded vessel goes aground and is refloated with tug assistance. A diver's survey reports some damage but the vessel is neither holed nor leaking and the attending Classification Society surveyor permits the vessel to continue her voyage without the necessity to effect any repairs. Subsequent to discharging her cargo, the vessel is placed in a drydock where, in addition to identifying damages sustained in the act of going aground, other damages are separately identified as having been sustained in the efforts to refloat for the common safety.
- The assured express concern to you that they omitted to declare General Average and arrange for the usual form of security to be collected from the cargo interests prior to delivering the cargo. Advise them as to whether they can recover the costs of repairing the General Average sacrificial damage from the vessel's Hull and Machinery underwriters. (5 marks)
14. Summarise the provisions of the Marine Insurance Act regarding the purpose and effect of a sue and labour clause. (5 marks)
15. (a) What do you understand by the term "subrogation"? (3 marks)
- (b) How do the insurer's rights differ in the cases of a total loss and a partial loss? (3 marks)
16. In a policy on goods, what is the measure of indemnity when part of the goods is totally lost? (4 marks)

-----