

ASSOCIATION OF AVERAGE ADJUSTERS

ASSOCIATESHIP EXAMINATIONS, APRIL 2008

MODULE 2

HULL AND CARGO CLAIMS

(2½ HOURS)

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

1. Name three instances where the policy deductible is not applied under Institute Time Clauses (Hulls) 1/10/83, and explain the reason for this. (3 marks)

2. During Policy A, the Chief Engineer is negligent in refitting a main bearing following an overhaul. Two months later, during Policy B, the engine suffers a major breakdown due to that negligent act. Both policies are subject to the Institute Time Clauses (Hulls) 1/10/83.

On which policy does the claim fall? Give your reasons. (4 marks)

3. A vessel sustains main engine damage to all 6 cylinders due to lub oil contamination resulting from crew's negligence. The underwriters' surveyor approves the repair costs including all the new liners apart from two which are approved "for cost only" as the surveyor points out that these two liners were already worn and would have required replacement within about 6 months even if the damage had not occurred.

What advice would you give to the shipowner concerning his claim under the Institute Time Clauses (Hulls) 1/10/83 concerning these two liners? Explain the reasoning behind your advice. (4 marks)

4. Under Clause 8 of the Institute Time Clauses (Hulls) 1/10/83, underwriters only indemnify the assured when they are legally liable for damages caused as a result of a collision.
 - (a) Why is there a reference to legal liability? (4 marks)
 - (b) Briefly describe the cover provided by this clause. (4 marks)
 - (c) Are there any exclusions to the type of damages that hull underwriters will indemnify and, if so, what are they? (4 marks)

5. A shipowner is successful in a recovery against a harbour authority for a grounding incident for which hull underwriters settled the claim as presented.

The recovery obtained, excluding interest, from the harbour authority amounted to US\$ 900,000.

Hull underwriters paid a claim for US\$ 850,000 after the policy deductible of US\$ 250,000 had been taken into consideration.

- (a) Is there any assistance given in the Institute Time Clauses (Hulls) 1/10/83 with regard to recoveries? (4 marks)
- (b) What part of the recovery of US\$ 900,000 would the hull underwriters expect to receive, if any? (3 marks)
- (c) If the amount recovered from the harbour authority amounted to US\$1,200,000 would this effect the recovery position of the shipowners? (3 marks)
6. 1000 bags of coffee, each with a shipped weight of 50kg and 51kg gross, are insured subject to the Institute Cargo Clauses (A) for US\$ 500,000 so valued.

During the course of the voyage:

- (a) 4 bags are lost overboard during discharge and are not recovered.

What is the claim on the policy? (4 marks)

- (b) 24 bags are delivered damaged by seawater and the damage is assessed by the surveyor and agreed at 20%. The survey fee is US\$ 200.

What is the claim on the policy? (4 marks)

7. During the course of a loaded voyage from Mumbai to Antwerp a vessel sustains damage to her bottom shell plating. The repairs require drydocking but the owners defer them until the vessel's next routine drydocking in Dubai some 9 months later.

The cost of entering and leaving the drydock is	US\$ 10,000
The vessel is in drydock for 4 days and the dues per day are	US\$ 5,000
The cost of repairs to the bottom shell plating is	US\$ 50,000
Owners' repairs effected at the same time cost	US\$ 15,000

The repairs to the bottom damage require 4 days in drydock if effected alone.
The Owners' repairs require 3 days in drydock if effected alone.

The vessel is insured subject to ITC (Hulls) 1/10/83, deductible US\$ 35,000.

State the claim on the policy. (8 marks)

8. A vessel grounds whilst in ballast; various sue and labour expenses are incurred but she is later found to be a Constructive Total Loss and is sold for scrap for a net amount of US\$ 1,000,000. The vessel is insured for US\$ 10,000,000 but her sound value at the hour of the incident is US\$ 12,000,000.

State the claim under the Institute Time Clauses (Hulls) 1/10/83 for the Sue and Labour expenses of US\$ 2,000,000. (5 marks)

9. A loaded vessel grounds and refloats with tug assistance after working her main engine. The following losses/damages are incurred:

Ship grounding damage	US\$ 500,000
Ship refloating damage	100,000
Port of refuge expenses	20,000
Loss of part cargo due to delay at port of refuge	100,000
Salvage under contract	<u>300,000</u>
	<u>US\$ 1,020,000</u>

The sound market value of the ship is US\$ 10,000,000 and the arrived value of the cargo at destination is US\$ 800,000.

State the claim on the hull policy (the vessel is fully insured) subject to Institute Time Clauses (Hulls) 1/10/83, deductible US\$ 75,000. (8 marks)

10. Clause 6 of the Institute Time Clauses (Hulls) 1/10/83 includes cover for loss of or damage to the subject matter insured caused by, inter alia:

6.2.2 bursting of boilers breakage of shafts or any latent defect in the machinery or hull.

Explain the term “latent defect” in the context of the clause. (5 marks)

11. During a period in a loading port in the UK the registered owner of a ship and his technical manager carry out a routine inspection of the vessel accompanied by the chief engineer. Some three weeks after the commencement of the following voyage there was a failure of the main boiler due to poor quality boiler water resulting from a complete lack of the appropriate chemicals on board. A claim for the cost of renewing the boiler is presented to underwriters under policies subject to the Institute Time Clauses (Hulls) 1/10/83 on the grounds of engineer’s negligence.

In considering the claim what clarification would you seek as to the circumstances of the loss, and why? (5 marks)

12. The crew refuse to sail a ship from her loading port due to their being owed three months wages by the shipowners. Fearing a protracted dispute, a shipper arranged for his parcels of cargo to be discharged, stored and forwarded to destination in another vessel. The extra costs so incurred amounted to US\$ 75,000, and this sum was debited to cargo receivers who claimed from underwriters under policies subject to the Institute Cargo Clauses (A).

Explain whether these costs are payable under the policy. (4 marks)

13. The Institute Cargo Clauses (C) provide restricted cover for five specific types of incident. Identify four of them. (4 marks)

14. Vessels A and B are in collision and, following negotiations between the two sides, the respective claims and degrees of liability are amicably agreed as follows:

	Vessel A (30% to blame)	Vessel B (70% to blame)
PA damage	US\$ 400,000	US\$ 120,000
Loss of Use	US\$ 250,000	US\$ 60,000
Cargo damage	US\$ 160,000	-

Show the settlement between the parties, with neither vessel limiting its liability at law. (5 marks)

15. Summarise briefly the nature of the cover you might expect to find in the following types of policy:

(a) Increased value. (4 marks)

(b) Loss of Hire. (4 marks)

(c) Protection and Indemnity. (4 marks)

16. Under Clause 8 of the Institute Cargo Clauses (the “Transit Clause”) state two ways in which cover will normally terminate. (3 marks)
