

## P98

### Diploma in Insurance

#### Unit P98 – Marine hull and associated liabilities

October 2014 examination

#### Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**



## Unit P98 – Marine hull and associated liabilities

### Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 200 marks, as follows:

Part I	14 compulsory questions	140 marks
Part II	2 questions selected from 3	60 marks

- You should answer **all** questions in Part I and two out of the three questions in Part II.
- You are advised to spend no more than two hours on Part I.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show each step in any calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

## PART I

## Answer ALL questions in Part I

Note form is acceptable where this conveys all the necessary information

1. (a) Explain briefly what a maritime lien is, stating when it attaches. (7)
- (b) List **four** examples of a maritime lien. (4)
  
2. Clauses 11 and 13 of the Institute Time Clauses – Hulls 1/10/83 allow insurers to reduce the payment of a claim if the vessel has not been insured for its true value.
  - (a) Explain which losses these clauses apply to and how they operate to reduce a claim. (12)
  - (b) State whether the shipowner could recover any underinsurance elsewhere. (2)
  
3. (a) Outline **three** characteristics of a liner trade vessel. (3)
- (b) Outline **three** characteristics of a tramp vessel. (3)
  
4. You are an insurance broker and your client has purchased a small fleet of container feeder ships. They want advice on the purchase of protection and indemnity insurance from a fixed price insurer.

Explain the advantages and disadvantages of fixed price protection and indemnity insurance, compared with that provided by a traditional mutual club that is a member of the International Group of Protection and Indemnity Clubs. (12)

5. State the procedure followed when declaring general average and preparing the resulting insurance claims. (10)
6. (a) State the perils covered by the Institute War and Strikes Clauses - Hulls - Time 1/10/83. (5)
- (b) You are an insurance broker whose client wishes to purchase war and strikes insurance.
- Explain briefly to your client how this may be achieved, outlining any limitations that may be involved as a consequence of their planned trading. (5)
7. (a) State the provisions of the Marine Insurance Act 1906 that apply to subrogation. (6)
- (b) Explain briefly the position when the risk has been underinsured. (3)
8. You are a lecturer at a marine insurance course where one of the delegates represents a shipowner who has just purchased a Very Large Crude Carrier (VLCC). This delegate asks you what the situation would be if the vessel has to be lightened before it enters its final unloading port on each voyage. The shipowner has assumed that this manoeuvre will be covered by insurers. Insurance has been arranged under the Institute Time Clauses – Hulls 1/10/83.
- (a) Advise the delegate how the clauses deal with this situation. (7)
- (b) Outline how your advice would differ if cover was provided by the International Hull Clauses 01/11/03. (3)
9. The underwriter for a Protection and Indemnity Club is assessing a new risk.
- Explain which factors the underwriters will take into account and why they would regard these as important. (12)

QUESTIONS CONTINUE OVER THE PAGE

- 10.** Explain port state control and the nature of the Paris Memorandum on European port state control. **(8)**
- 11. (a)** Outline the coverage provided by mortgagee's interest insurance. **(4)**
- (b)** Outline **four** usual exclusions in a mortgagee's interest insurance policy. **(4)**
- 12.** Explain the provisions of the Marine Insurance Act 1906 and the supplementary act of 1909 with regard to wagering contracts. **(11)**
- 13. (a)** Outline how the anticipated recovery in world trade might be expected to affect the value of ships. **(3)**
- (b)** Explain why ship values are important to underwriters and how they protect themselves from under and over valuation. **(7)**
- 14. (a)** List the **four** sections of the London Marine Construction All Risks (MARCAR) Form. **(4)**
- (b)** Explain briefly the provisions that allow for an increase in the insured value of the vessel and state how these differ from the Institute Builders' Risks Clauses 1988. **(5)**

**Part II questions can be found on pages 8 and 9**

## PART II

**Answer TWO of the following THREE questions**  
**Each question is worth 30 marks**

- 15.** The 5,000 teu Panamax Container ship 'Sir Nigel Gresley' is docking at Southampton UK, assisted by the tugs 'Spithead Newport' and 'Spithead Carisbrooke.' Due to a strike by the local pilots, Sir Nigel Gresley has no pilots on board. As the vessel approaches her berth she loses her ability to be steered, later found to be the result of a latent defect in two of the engine mounting bolts. This leads to the Spithead Carisbrooke hitting the stern of the container ship, causing substantial damage to herself amounting to £1,000,000, and minor damage to the container ship.

In addition the Spithead Newport crew, concerned about the safety of their vessel, release the tow and as a result the container ship collides with the products carrier 'Oil Producer' which is leaving Southampton. The products carrier is holed and part of her cargo escapes which causes a loss of cargo of £1,500,000 and clean up costs of £250,000. The Port Authority organises a pollution containment scheme which costs a further £100,000. Damage to the hull of the Oil Producer amounts to £2,400,000.

The Sir Nigel Gresley suffers hull damage from the collision of £5,000,000 and the repair of damage caused by the latent defect costs £6,500,000. She is insured under the Institute Time Clauses - Hulls 1/10/83 with a deductible of £250,000 and is entered in a Protection & Indemnity Club which is a member of the International Group. The tugs were engaged by the container ship's owner using UK Standard Conditions for Towage and Other Services 1986.

- (a) State for which losses hull insurers are liable and state the section(s) of the clauses that provide(s) this cover. **(10)**
- (b) State which losses Protection & Indemnity insurers would pay. **(10)**
- (c) (i) Explain the difference in cover for latent defects between the Institute Time Clauses – Hulls 1/10/83 and the International Hull Clauses 01/11/03. **(4)**
- (ii) State the due diligence provision in the Institute Time Clauses – Hulls 1/10/83, stating its relevance to the coverage for latent defects and explain the actions shipowners could take to avoid rejection of a claim through want of due diligence. **(6)**



16. A Feeder Container ship is due to sail on the evening tide from Ullapool, UK. The vessel is carrying cargo on bills of lading subject to the Carriage of Goods by Sea Act 1971. Her full complement of crew is 15. As it is the first mate's birthday, he takes 10 of the crew to celebrate at a local bar. A fight develops between local fisherman and the crew. Five of the crew are arrested with local police refusing to release them until the morning.

The captain is aware that a major contract will be lost if the vessel does not arrive at the next port on time and decides to sail with insufficient crew. The vessel leaves port with a lookout only on the port side, misses a marker buoy and strands. The container ship breaks her back on the falling tide and is declared a total loss. The vessel is insured under Institute Time Clauses – Hulls 1/10/83.

- (a) Describe the relevant positions of the shipowner and insurer in this situation, explaining the provisions of the Marine Insurance Act 1906 relating to seaworthiness. (12)
- (b) Describe how insurers will consider a claim for a total loss when a vessel sails in an unseaworthy condition. (10)
- (c) State a shipowner's common law position regarding any claim for unseaworthiness made by cargo owners and explain how this is modified by the Carriage of Goods by Sea Act 1971. (8)

17. A tug, the *Stalwart* is insured for \$10,000,000 (so valued) under the Institute Time Clauses – Hulls 1/10/83 for 12 months from 1 January 2012. On 1 March 2012 the *Stalwart* sustains severe damage to its engine as a result of acid put in the diesel tank by striking dock workers. The engine is repaired at a cost of \$4,000,000. On 1 July 2012, the *Stalwart* sustains \$2,000,000 of damage from a shaft which breaks due to the negligence of the builders of the tug. The hull clauses cover damage caused by a shaft which breaks but not the damage caused by negligence of the builders. The assured effects \$1,000,000 of temporary repairs with the balance of repairs due to be incurred in a scheduled dry-docking in 2013. Finally, on 1 October 2012, the tug sinks and is an actual loss due to a holing of the hull resulting from striking a rock in the harbour vicinity and the failure of a bilge pump, which the assured knew needed to be repaired.

- (a) Discuss the recoverability of the cost of repairs for **each** of the three incidents from hull insurers with particular reference to the principle of proximate cause under the Marine Insurance Act 1906. (20)
- (b) Describe what other losses could be recovered under this insurance. (10)

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