

P98

Diploma in Insurance

Unit P98 – Marine hull and associated liabilities

October 2015 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. As an insurance broker, you have been asked for advice on insurable interest by your clients, Ferguson Shipping (Ferguson), who are about to become shipping agents for Wigan Pier Shipping Services (WPSS), who are starting a new twice-daily freight only service between Near-Continental ports and the UK.

Ferguson can only service the new client if they move to new premises and take on additional staff at great financial cost. They are concerned about the financial exposure to their business should WPSS suffer a casualty or casualties which would greatly impact the service.

For this reason, Ferguson have asked if they can insure the consequences to their business of such casualties.

Advise Ferguson as to whether they can take out any insurance, citing the relevant aspects of the Marine Insurance Act 1906 and relevant case law. (8)

2. Insurers control the cover they give by the use of the International Navigating Conditions 01/11/03 and Institute Warranties 1/1/76.

List **eight** areas of the world mentioned in these two clauses, stating in **each** case the relevant climatic condition(s) involved. (8)

3. The SS 'Wandering Star' suffers damage whilst unloading at a small Pacific Ocean port. Unable to repair the damage, the master decides to sail the vessel in an unseaworthy condition but she subsequently runs into a cyclone and sinks.
 - (a) Define 'seaworthiness' as set out in the Marine Insurance Act 1906. (2)
 - (b) State the position under the Marine Insurance Act 1906 if the vessel was insured under:
 - (i) a time policy. (3)
 - (ii) a voyage policy. (3)

4. As a broker, you have arranged war insurance for your client's fleet using the Institute War and Strikes Clauses – Hulls Time 1/11/95. Your client has asked if any losses are excluded.
- Explain the losses that are excluded from the clauses, and how cover could be automatically terminated. (12)
5. Outline the provisions relating to the automatic termination of cover contained in the Institute Time Clauses – Hulls 1/10/83. (11)
6. Outline the characteristics and responsibilities of each party of:
- (a) Voyage charters. (4)
- (b) Time charters. (5)
- (c) Demise or bareboat charters. (5)
7. The entire crew of the Maltese registered container ship 'Stamford Gap' developed food poisoning whilst on a voyage in June 2013 from Shanghai to Europoort. The master decided to divert to Mumbai to seek medical assistance, where the vessel was put into quarantine for 15 days. The effect of food poisoning on the Chief Engineer was severe and affected a stomach ulcer which had not been declared to the vessel's owners. A replacement engineer had to be flown out from Athens before the vessel could sail and the current Chief Engineer was repatriated.
- 'Stamford Gap' was entered into a P&I Club which was a member of the International Group.
- Explain what claims, if any, the shipowners could recover. (10)
8. State the 'physical damage exclusions' in the Institute Yacht Clauses 1/11/1985, including those which apply while the vessel is racing. (14)

QUESTIONS CONTINUE OVER THE PAGE

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9. (a) Describe the characteristics of a Very Large Crude Carrier. (5)
- (b) Explain briefly the concerns a hull underwriter would have in accepting such a risk. (3)
10. (a) State the role of the International Group, and the **four** main functions it provides. (6)
- (b) Explain briefly the main provisions of the International Group Agreement. (4)
11. (a) Define 'general average' as it is summarised in Rule A of the York-Antwerp Rules. (7)
- (b) Explain briefly the use of the York-Antwerp Rules, and how shipowners can ensure they are used to settle a general average. (3)
12. (a) Explain the importance of a ship's value to an underwriter when evaluating a risk. (4)
- (b) Describe how and why a ship's value might change during its lifetime, the consequence this has for underwriters, and how they might deal with this. (8)
13. The MV 'Senior Service', is in need of repairs following a loss caused by an insured peril. Her owners want this to be carried out by a local repair yard but insurers believe the vessel can be repaired cheaper elsewhere.
- State the rights of insurers to take control of the claim under Clause 10 'notice of claim and tender clause' of the Institute Time Clauses – Hulls 1/11/95. (5)
14. (a) Outline how Protection & Indemnity (P&I) Clubs use calls. (5)
- (b) State the action that a P&I Club can take if an unexpected number of claims occur. (2)
- (c) Describe how a P&I Club protects itself from future liability when an owner leaves a P&I Club. (3)

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 products tanker 'Fair Product' is proceeding on a voyage in ballast from Pembroke to Hamburg when her shaft begins to vibrate. The master reports this to the owner's superintendent and asks for a tug to tow the vessel into a port of refuge. The superintendent decides a tow is not necessary and tells the master to continue the voyage. The vibrations increase and the main crank shaft snaps, with consequent loss of power causing the vessel to drift.

A storm suddenly develops and the vessel drifts on to rocks near Jersey.

A tug offers salvage assistance but the owner refuses offers of salvage on Lloyd's open form. The vessel manages to refloat without assistance on the next high tide and the owner negotiates with the salvage company a fixed fee for towage to a port of refuge.

The vessel is insured for \$60,000,000 so valued under the Institute Time Clauses – Hulls 1/10/83. There is no increased value policy.

Repairers estimate it will cost \$35,000,000 to repair but stress the final costs could be substantially higher once damaged machinery is opened up for inspection. The owner believes the vessel can be best repaired at a German yard but the cost of moving the vessel would be \$7,500,000. The wreck is worth \$10,000,000 as scrap and the policy deductible is \$1,000,000.

- (a) Describe the procedure set out in the Marine Insurance Act 1906 for claiming a constructive total loss, should the owner decide to do so. (17)
- (b) Explain the options available to the owner and insurers in settling this claim and the actions **each** could take. (7)
- (c) Explain how the situation would have been different if the vessel had been insured under Institute Time Clauses - Hulls 1/11/95. (6)

16. (a) Explain the cover and any extensions, provided for collision liability under the International Hull Clauses 01/11/03. (22)
- (b) The MV Bilbo Baggins and the tug Dover Castle collide in the approach channel to Thames Gateway whilst the ship is berthing. The tug is not under contract to the ship and is on its way to meet its next tow.
- Bilbo Baggins suffers damage of £2,000,000.
- Dover Castle, which has suffered damage of £1,000,000, is found to be 75% responsible for the collision, but is allowed by the courts to limit her liability to Bilbo Baggins to £400,000.
- Bilbo Baggins is insured with London Market insurers under the International Hull Clauses 01/11/03 subject to a deductible of £500,000, and is entered into a Protection & Indemnity (P&I) Club.
- Calculate, **showing all your workings**, any claims paid by Bilbo Baggins' hull insurers and/or her P&I Club. (8)
17. An earthquake at the Central American country of El Quarto has blocked the main channel to the country's principal port. The port authorities engage Wizoo Dredging to clear the channel to the agreed depth.
- Wizoo Dredging bring in a cutter dredger and complete their work. They are about to depart when the small adventure cruiser 'Sea Questor' enters the port and touches bottom as she approaches her berth. Divers find the berth has not been dredged to the correct depth and that the cruiser has minor damage to her hull but major damage to her propeller and rudder.
- The port authorities detain the dredger, citing port state control, and prevent her from leaving. The cruiser makes temporary repairs, abandons her voyage and, accompanied by a salvage tug, leaves for permanent repairs.
- (a) Explain briefly the responsibilities, if any, the port authorities have to the owners of the Sea Questor. (6)
- (b) State the cover that would be provided to the port authorities under a Port and Terminal Operators Policy. (8)
- (c) Explain the actions the Claims Manager for Sea Questor's insurers would take to investigate and settle the claim and from whom he might ask advice. (16)

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