

# P90

## Diploma in Insurance

### Unit P90 – Cargo and goods in transit insurances

April 2016 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 P90 – Cargo and goods in transit insurances

### 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. List **eight** countries outside the European Union that are contracting states to the Hague-Visby Rules. (8)
  
2. (a) Identify **three** perils covered by the Institute Cargo Clauses (A) 1/1/09 which are not covered by Institute Cargo Clauses (B) 1/1/09. (3)  
(b) Identify **three** perils covered by Institute Cargo Clauses (B) 1/1/09 which are not covered by Institute Cargo Clauses (C) 1/1/09. (3)
  
3. (a) Calculate, **showing all your workings**, how much a CMR carrier must pay for 15 tonnes of goods which are stolen in transit, using an exchange rate of £1 to 1.12 Special Drawing Rights. *Your answer should not include any amount for interest or other charges.* (7)  
(b) Explain briefly the maximum compensation payable by the CMR carrier if 15 tonnes of the same goods, with a value of £160,000, are instead damaged in an accident during the CMR journey, stating the relevant article and provision of CMR. *Your answer should not include any amount for interest or other charges.* (4)
  
4. State **six** situations in which goods can be stolen during road transit. (6)
  
5. Cargo on board a ship which is taken by pirates has been found to be damaged upon the ship's arrival at destination following the payment of a ransom which allowed the release of the vessel. The cargo was insured under Institute Cargo Clauses (B) 1/1/09.  
(a) Explain briefly why the cargo is being retained by the shipowner. (2)  
(b) Explain the reasoning behind the shipowner's decision to retain the goods. (5)  
(c) Outline the actions the owner of the goods must take to secure their release. (4)  
(d) State why the cargo insurers would refuse to pay for the damage to the cargo. (2)

6. Describe briefly the following containers and their purpose, identifying **one** typical cargo that **each** type of container would carry:
- (a) A ventilated container. (2)
  - (b) An integral refrigerated container. (5)
  - (c) An insulated container. (5)
7. State the standard packing for the following goods, identifying the main risk profile of **each**:
- (a) Computers. (2)
  - (b) Detergents in powder form. (2)
  - (c) Fertilizers. (2)
  - (d) Large items of machinery. (2)
  - (e) Seed grain. (2)
  - (f) Bottled beer. (2)
  - (g) Almonds. (2)
8. Explain the differences between a road carrier who carries goods for reward without using any conditions of carriage and one who carries goods under an all risks contract of carriage. (13)

QUESTIONS CONTINUE OVER THE PAGE

9. A used printing machine, valued at £150,000, is damaged en route to the port of departure. The damaged part is no longer in production and the cost of manufacturing a bespoke replacement part, fitting it and forwarding the repaired machine, is £60,000. It will take up to six months for it to be produced and fitted.

The assured insists that this should be treated as a constructive total loss, taking into account the cost of repair and the time taken for the repair to be completed. The insurers refuse this and offer to either pay for the repairs or to pay the assured £60,000 in full and final settlement, citing Institute Replacement Clause 1/1/34 CL.161, contained in the policy as justification for their offer.

In response, the assured argues that the final paragraph of the Institute Replacement Clause 1/1/34 states that the liability of underwriters shall not exceed the insured value of the completed machine. Accordingly, the assured argues that it is entitled to the payment of £150,000.

State, with reasons, whether you agree or disagree with the insurers.

**(14)**

10. An assured has objected to paying the higher premium underwriters propose to charge for a consignment of clay being carried by a bulk carrying ship. This vessel was built in 2005, and has sailed regularly between just two ports in the whole of its working life, a route which the master knows well.

(a) Explain briefly why the underwriters are charging a higher premium.

**(4)**

(b) Describe the main risk profile of this product.

**(7)**

11. A consignment of goods is sent by rail from the UK to Switzerland in a 40 foot container. During the journey the container falls from the flat rail wagon, due to carelessness by a railway employee in failing to secure the container to the railway wagon, causing the 20 tonnes of goods to be destroyed. Converting Pounds Sterling to Special Drawing Rights produces a liability of £15.178 per kilo. The consignment had a value of £600,000.

(a) State the contract under which the consignment would have been carried.

**(1)**

(b) Calculate, **showing all your workings**, how much compensation the rail carrier will have to pay.

**(4)**

(c) Outline how the rail carrier could be liable to pay more than the standard compensation available for international carriage of goods by rail for reward.

**(5)**

- 12.** The owner of goods lost during road transit from the Netherlands to Italy is experiencing difficulty in recovering the value of those goods from the carrier with whom it contracted to carry the goods. This carrier says he sub-contracted the carriage to another road carrier but refuses to identify that carrier.
- Outline, taking the position of a claims adjuster, the reasons why you think the carrier is liable, and how you would obtain compensation. **(10)**
- 13.** List **six** main countries from which bauxite is mined. **(6)**
- 14. (a)** State the **three** things that bailees of goods must not do with goods in their possession. **(3)**
- (b)** Identify **three** businesses who would act as bailees of goods for surface transport from an inland location to an overseas port. **(3)**

**QUESTIONS CONTINUE OVER THE PAGE**

## PART II

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

- 15.** You are the Insurance Manager for a firm of haulage contractors whose driver parked his lorry in a transport cafe car park which had experienced regular thefts from goods carrying vehicles. The driver had been given specific instructions by his transport manager not to park there under any circumstances. The driver argues that his driving hours had expired and the nearest safe lorry park was more than 10 miles away. The haulage contracting firm think they will have to pay full compensation for the loss of goods instead of the more limited amount that might have been payable if he had parked in a better location. The carriage was from Spain to the UK.
- (a) Identify the haulage contractors' legal liability. (2)
- (b) Explain, with reasons:
- (i) whether you agree that full compensation must be paid; (10)
- (ii) whether you consider that the driver's actions were reasonable in the circumstances; (12)
- (iii) the level of compensation that may be paid to the owners of the goods if liability arises under the contract of carriage. (6)
- 16.** An insurer settled a claim for fire damage to an insured cargo and is seeking to exercise its rights in subrogation against the owners of the ship. The insurer cites the cause of the fire – said by a claims surveyor to be probably due to defective electrical wiring – as evidence of the shipowner's failure to exercise due diligence in the maintenance of the vessel. The insurer also claims that the defective electrical wiring meant that the ship was unseaworthy when she sailed. The ship is flagged in the UK and had sailed from a UK port. She had undergone her last classification society special survey nearly five years ago. In response the shipowner seeks to rely on his conditions of carriage, claiming that they exclude any liability for damage caused by fire.
- (a) Identify the legal regime under which the cargo insurer must pursue its claim. (2)
- (b) Describe the legal liability of the shipowner for cargo, explaining how the allegations made by the cargo insurer could mean the shipowner is legally liable for the loss. (25)
- (c) Identify the level of compensation the shipowner must pay to the insurer if it is found liable. (3)



17. You are an insurance broker, newly appointed to handle the marine cargo insurance for UK Widgets (UKW). UKW currently supply their goods on an Ex Works (EXW) basis but provide their buyers with 90 days credit for payment of the cost of these goods. Although this creates a difficult cash flow situation for UKW, they would prefer to retain this arrangement if possible because it suits their clients. UKW also want to enhance their sales package by including insurance for the goods whilst en route to their buyers. The goods are sent by road vehicle to destinations in Eastern Europe and by deep sea to the Far East.

Write a report for UKW that:

- (a) describes the duties and obligations of sellers and buyers under EXW terms; (4)
- (b) identifies the weaknesses inherent in releasing goods before receiving payment for them; (5)
- (c) explains the benefits to UKW of using more suitable Incoterms; (16)
- (d) identifies **one** type of marine policy that will assist UKW in its difficult cash flow situation without any extra cost to them, explaining briefly how this policy works. (5)

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