

## P98

### Diploma in Insurance

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

October 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 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 how an owner enters a vessel into a Classification Society. (5)
- (b) State **three** periodic surveys a vessel entered into a Classification Society is subject to and **two** additional surveys that may be required. (5)
  
2. A minor collision has occurred in the Thames Estuary. You are the placing broker for one of the vessels involved and are asked by the underwriter for the claims documentation.  
  
Identify **three** documents you would be expected to produce, who would prepare them and the information they would contain. (9)
  
3. Your client Small Shipping plc has a fleet of three vessels. The largest vessel 'Little Jim' is involved in a collision and cannot earn any income whilst under repair. The owners ask if there is any insurance that would pay for a loss of income in the future in similar circumstances.  
  
(a) State the insurances that are available. (3)
- (b) Outline the cover provided and how it operates. (6)
  
4. A shipping company wishes to obtain a new vessel and approaches a bank to seek financial help.  
  
(a) Outline the **three** types of finance that are available. (6)
- (b) State the insurance provisions a financier will insist on in order to protect its interest. (7)

5. The tug 'Bulldog Drummond', which had trading warranties of UK/European Waters, was engaged to tow a barge containing drilling equipment to Iceland. Insurers agreed to cover the voyage but, concerned about winter weather, insisted on an express warranty that the voyage must start on or before the 1 October 2015. Due to a technical problem the tug was unable to sail until 2 October 2015. Three days into the voyage, during a sudden severe storm, the tug and tow sank.
- (a) State underwriters' position under the Marine Insurance Act 1906 (MIA) prior to the enactment of the Insurance Act 2015. (2)
- (b) Outline the circumstances stated in the MIA where an assured can be excused from a breach of warranty. (7)
6. Identify the duties imposed on a carrier by the Carriage of Goods by Sea Act 1971, stating when these duties apply and when they are excused. (12)
7. (a) Explain briefly the role of a vessel's flag state and the responsibilities it has to a vessel. (5)
- (b) State the actions a flag state should take following a collision. (4)
8. (a) Explain how the International Group of P&I Clubs operate under the Pooling Agreement. (7)
- (b) State how the Pooling Agreement reinsurance programme is arranged. (4)
- (c) Outline whether the existence of the pool affects members' underwriting. (3)

**QUESTIONS CONTINUE OVER THE PAGE**

9. An engine room fire breaks out on the oil tanker 'Oil Carrier IV' as she leaves Milford Haven in a light state having discharged her cargo. A number of the vessel's crew suffer serious burns and a helicopter attempts to land on the vessel's deck to take them to hospital. Due to smoke from the fire, the helicopter lands heavily, damaging ship's equipment and the helicopter's landing gear. The ship collides with a container feeder ship before grounding on sand. The fire is put out by a tug and the vessel is towed back to Milford Haven, the Master having signed Lloyd's Open Form.

The vessel is examined by surveyors and deemed repairable. The hull is insured under Institute Time Clauses – Hulls 1/10/83.

Explain any claims the hull insurers would have to pay and any claims that would be excluded. (14)

10. A Protection and Indemnity (P&I) Club, which is a member of the International Group, is asked to quote for a new build 250,000dwt oil tanker.

State the information an underwriter would require and explain briefly why this information is important. (14)

11. (a) State how the Marine Insurance Act 1906 provides for Sue and Labour Claims under Section 78. (5)

(b) Explain how the provisions in your answer to part (a) above are amended by the Institute Time Clauses – Hulls 1/10/83. (5)

12. (a) Define 'salvage'. (3)

(b) State the **three** elements that are required for pure salvage. (3)

13. State which **three** items of information regarding the ownership and management of a vessel an underwriter requires when considering a risk, explaining briefly why **each** one is important. (6)

14. (a) Explain the effect of the Disbursement Warranty that appears in the Institute Time Clauses – Hulls 1/10/83. (4)

(b) Provide **one** example of the additional insurances mentioned in the above clause. (1)

## PART II

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

- 15.** The ships 'Doric' and 'Ionic' have been chartered to deliver construction equipment to Saudi Arabia. While sailing through the Gulf of Aden, they receive a mayday call from a nearby yacht, allegedly sinking. Doric approaches the yacht to help, but finds it is crewed by armed pirates who board and seize the vessel, forcing Doric's master to contact Ionic's master to ask for additional assistance. Ionic assists but it is also seized. Both vessels then sail to a port in Somalia which the pirates have captured from Government authorities.

Doric's crew overpower the guards and manage to regain control, but as they flee the port, a surface-to-surface missile fired at Doric hits the accommodation and causes a fire. The crew succeed in extinguishing the fire confining any damage to the accommodation, although they suffer some injuries in doing so. Doric's crew call for help as they regain the main seaway and the container ship 'Blue Moon' offers assistance, but as Doric approaches, due to a navigational error, she collides with the 'Blue Moon' injuring two of the container ship's crew and three of Doric's crew. Doric is subsequently held 100% responsible for the collision.

Ionic remains under the pirates' control for 14 months. During that time the shipowner pays a ransom to the terrorists for the safe return of its crew, but not the ship. Eventually Government forces retake the port and release Ionic. The vessel has superficial damages only.

Both vessels are insured under Institute Time Clauses - Hulls 1/10/83 and Institute War and Strikes Clauses Hulls - Time 1/10/83, with navigational limits extended to include the Gulf of Aden. The vessels are entered with a P&I Club which is a member of the International Group.

- (a)** Outline the claims that are payable:
- (i)** to the owners of the Doric under the hull and war policies; **(3)**
  - (ii)** by the P&I Club; **(2)**
  - (iii)** following Doric's collision with the 'Blue Moon'. **(12)**
- (b)** Discuss how the insurers of Ionic would respond to the shipowner's claim. **(11)**
- (c)** Outline how the ransom money paid to release the crew of Ionic would be dealt with. **(2)**

**QUESTIONS CONTINUE OVER THE PAGE**

16. Lazy Day Shipping, a small European coastal operation, went into receivership in November 2014. Its entire senior staff left before the fleet was taken over by Happy Valley Shipping. Happy Valley added Lazy Day's fleet to its existing policy which is placed 100% with the Lake District Insurance Company.

On Happy Valley's policy renewal in October 2015, they wished to add a new container feeder ship to their fleet, but Lake District Insurance felt this was too big a risk for it to take 100% for its portfolio and consequently reduced its exposure to 50% of the sum insured. Happy Valley's broker approaches the Black Cat Underwriting Syndicate in September 2015 to accept the other 50%. However the broker is horrified to learn that Black Cat was the previous holding underwriter for Lazy Day but had intended not to renew due to its poor record. In addition the broker is told the placing information is incorrect and a number of claims paid by Black Cat have not been included in the claims figures, including a total loss to a small coaster caused by negligent navigation in 2012.

The broker approaches Happy Valley for clarification, who say they were unaware of the claims. Happy Valley's management has also told the broker the information was not relevant as the Happy Valley takeover effectively set up a new company. Lazy Day's remaining staff were unaware of the claims.

Whilst the broker is discussing this problem with Happy Valley, a fire breaks out on the 'Lazy Larry', a former Lazy Day vessel which becomes a constructive total loss.

Lake District refuses to pay the fire claim alleging non-disclosure of information. Happy Valley counter argues that the Lazy Day losses are not relevant to them and that the 2012 total loss would have been entered in casualty reports and would be common knowledge in the marine hull market.

- (a) Explain the obligations of parties to a marine insurance contract under the Marine Insurance Act 1906, prior to the enactment of the Insurance Act 2015. (9)
- (b) Outline the nature of any information that had to be revealed to the insurers. (2)
- (c) Explain what the situation would be if Lazy Day's remaining staff had been aware of the correct claims figures but had not disclosed them. (9)
- (d) Discuss whether the fire claim is recoverable, considering both the assured's and the insurer's arguments. (10)



17. You are the Insurance Broker for Bulk Shipping Ltd, a well established shipping fleet specialising in shipping coal and minerals. They have a medium-sized fleet of large bulk carriers which are renewed on a regular basis and have produced an underwriting profit for the past five years. The company wishes to diversify from bulk carriers, believing there are opportunities in the cruise liner market. They have not yet made any firm plans and are considering a number of options.

The information you have is that the firm is considering using two vessels, one to cruise in Northern Europe and one to cruise in the Mediterranean. One vessel would be chartered and one would be purchased.

- (a) Explain to Bulk Shipping Ltd their responsibilities and liabilities for the cruise liner that will operate in Northern Europe under a demise charter, outlining the insurance protections they can buy and the cover this would give them against any liability claims from the ship's owner and where the cover can be purchased. (10)
- (b) Bulk Shipping Ltd intends to purchase a medium-sized five-year-old cruise liner for its Mediterranean service. For its bulk fleet it currently uses International Hull Clauses 01/11/03, amended to cover 4/4ths collision liability. For protection and indemnity (P&I) risks it currently uses a member of the International Group of P&I Clubs.
- (i) Explain to Bulk Shipping Ltd **five** main differences between the International Hull Clauses 01/11/03 and Institute Time Clauses – Hull 1/10/83. (10)
- (ii) Explain what additional cover is given for passengers and the options there are, to using its current P&I insurer. (10)

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