

# AN INTRODUCTION TO P&I INSURANCE FOR MARINERS

# EMERGENCY PHONE

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*This booklet is intended for Masters and senior officers as an explanation of Skuld's Protection & Indemnity insurance cover (with practical operational advice) and is for guidance only. Skuld's Rules shall always be consulted for the full scope and extent of insurance cover.*



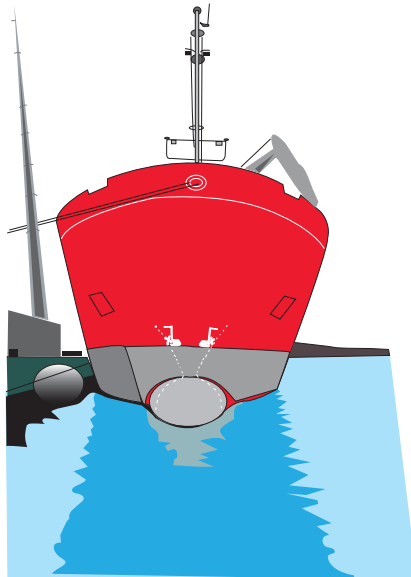
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# / AN INTRODUCTION TO MARINE INSURANCE

In basic terms there are three main types of marine insurance:



# / HULL AND MACHINERY INSURANCE

Hull and machinery insurance is to protect the shipowner's investment in the ship. It is basically a property insurance which covers the ship itself, the machinery and equipment. The owner will be protected for losses caused by loss of or damage to the ship and its equipment.

Loss of time following damage to the ship is covered under Loss of Hire insurance (see page 5).

Furthermore, the insurance covers some liabilities, normally collision liability with another ship (known as RDC – "Running Down Clause") and sometimes also liability for colliding with other objects than another ship (known as FFO - "Fixed and Floating Objects). Since the conditions vary, it is recommended that the Master finds out how the insurance is placed for the ship. Very often these liabilities are handled by the owner's P&I club.

The third part of the insurance is cover for salvage and general average contributions.

Typical hull and machinery claims include:

- / Total loss of the ship
- / Damage to the ship, engines and equipment
- / Explosions and fires
- / Groundings – damage to the ship, salvage of the ship and possible contribution in general average
- / Collisions – damage sustained to the ship and sometimes also liability towards the other ship (RDC) **(Check conditions!)**
- / Striking other objects – damage inflicted to own ship and sometimes also liability towards the owners of the other object (FFO) **(Check conditions!)**

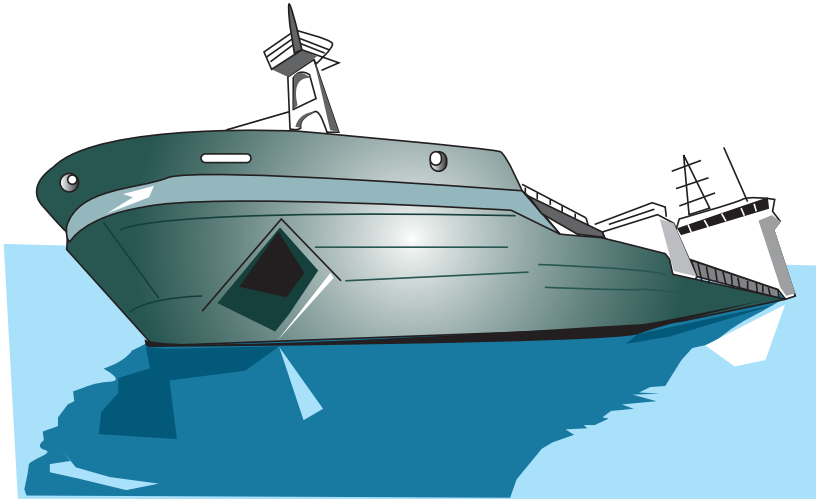
**Check procedures how to handle an emergency – whom to contact.**

The hull and machinery cover will include a “Trading Warranty”, a clause stipulating where the vessel may trade. This has nothing to do with any trading agreement in any charterparty. It is important to check these trading limits as a breach may jeopardise the cover. Life saving is normally accepted even if trading limits are breached.

### **Check Trading Limits!**

The insurers will pay the shipowner for the cost of repairs to the ship after the damage has been surveyed and tenders from repair yards submitted. The shipowner will, however, have an agreed amount referred to as the “deductible” which has to be paid by him before a claim against his insurance policy is submitted. For example, if the deductible is USD 100,000 and a claim for repairs is USD 300,000, the insurers will compensate the owner for USD 200,000.

Hull and machinery cover is often arranged and placed in the insurance market by a professional insurance broker. It is quite common that the insurance cover is spread to many insurers in various countries. The insurers in the hull and machinery market are either companies or syndicates. The company or the syndicate will have an underwriter who signs the policy or the slip produced by the broker for his share of the cover. The biggest single market for marine insurance is Lloyd’s in London. Lloyd’s consists of a number of syndicates writing shares on insurance covers. The company market is dominated by Norway and Scandinavia, but also insurers in USA, France, Italy, Japan and Korea are very active in the marine market.



*Groundings are one of the causes of damage covered under Hull and Machinery insurance*

## / RELATED COVERS

Without going into too many details, it is worth mentioning a few covers which are quite common:

**War Insurance.** The Hull and Machinery, and most other marine insurance covers, exclude any loss, damage or liability due to war or warlike situations (i.e. civil commotion, terrorism). The war cover has separate trading limits (called “Listed Areas”) where trading may be restricted or subject to additional premium.

**Check War Trading Limits!**

**Loss of Hire Insurance.** To protect a loss of a charter hire or freight income many owners elect to purchase a loss of hire cover. Depending on the conditions, the cover may include slow steaming as a result of a physical damage to the ship. The cover may also include time lost due to deviation to a repair yard. Correct and accurate log entries are therefore important in such situations.

## /CARGO INSURANCE

The owners of cargo, which is to be transported by sea, usually cover their financial exposure against loss of, or damage to cargo for a declared value. Cargo insurance is provided by the Syndicates at Lloyd's but more commonly by professional insurance companies around the world. They keep records of their losses and use this information to help them calculate



*Cargo insurance covers loss or damage to the goods carried*

premiums for insurance of certain types of cargo in varying kinds of marine transportation, i.e. in bulk, packaged, containerised, refrigerated, chilled, in tanks etc. The cargo insurer will compensate the owner of the cargo for any loss or damage to the cargo. Thereafter they may claim compensation for their loss from the carriers of the cargo.

## /PROTECTION AND INDEMNITY INSURANCE

In basic terms, Protection and Indemnity insurance, or "P&I" as it is usually called, is a shipowner's insurance cover for legal liabilities to third parties. "Third parties" are any person, apart from the shipowner himself, who may have a legal or contractual claim against the ship. P&I insurance is usually arranged by entering the ship in a mutual insurance association, usually referred to as a "club". Shipowners are members of such clubs. Legal liability is decided in accordance with the laws of the country where an accident takes place. The P&I insurance cover for contractual liability is agreed at the time the owner requests insurance cover from the club and is



usually in accordance with the owner's responsibility under crew contracts or special terms relating to the trading pattern of the vessel.

## **/ EXPLANATION OF THE TERM, "PROTECTION AND INDEMNITY"**

The word protection simply means that the insurance also covers assistance when a ship is involved in an accident and the shipowner and his Master need help. Often the club's early intervention and assistance will help to head off problems and serve to protect the shipowner from inflated claims.

P&I insurance is an indemnity type of insurance, which means the shipowner (or member of the club) must demonstrate his loss before the club will pay out (or indemnify him) under the terms of the insurance policy. It is important to bear in mind that the club never assumes the owner's liability, therefore technically the owner (or member) is always responsible for payments (the "pay to be paid" principle). In practice, the club takes over the business of handling claims and ensuring that payments are correctly made.

## **/ RUNNING DOWN CLAUSE (RDC) AND FIXED OR FLOATING OBJECTS (FFO)**

The P&I cover may include liability for collisions ("RDC"), for example when the member's ship is in collision with another ship, or when the entered ship strikes a fixed object, i.e. a quay, dock or buoy ("FFO"). However, collision and striking liabilities are often included in the ship's hull and machinery cover, for instance under the Norwegian Insurance Plan. Therefore, it is important for a Master to ascertain whether his vessel's collision insurance (collision between ships) and striking insurance (i.e. when a ship strikes a fixed or floating object which is not another ship) is covered under his P&I policy or under his hull and machinery policy. To be safe, it is always wise for a Master to inform the P&I club, or the club correspondent, if his vessel is in collision with another vessel or a fixed object.

## / DEATH AND PERSONAL INJURY ON BOARD THE VESSEL

P&I insurance covers an owner's liability for all deaths, personal injuries and illnesses which occur on board, including death or injury to crew, passengers, stevedores, pilots and visitors to the ship.



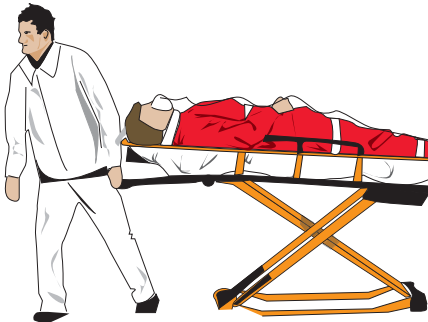
*P&I insurance covers an owner's liability for death and personal injury*

## / REPATRIATION OF SICK OR INJURED CREW AND HOSPITAL EXPENSES

P&I insurance also covers a shipowner's liability to pay for the costs of repatriating crew members who become sick or are injured on board. The insurance also covers the crew's hospital bills and costs of sending replacement personnel to the ship if necessary.

## / LOSS OF CREW MEMBERS' PERSONAL EFFECTS

P&I insurance also covers the owner's liability for loss of crew belongings in cases of shipwreck or fire on board. The cover only applies to items which are deemed to be reasonable for any crew member to have with him on board. A crew member travelling with unusually expensive items, such as laptop computers, gold watches etc should make sure that he has such items separately insured.



*Repatriation of injured crew members is one of the expenses covered by P&I insurance*



*Ensure any damage is surveyed and recorded*

## **/ LOSS OF OR DAMAGE TO CARGO**

One of the major functions of Protection and Indemnity insurance is to cover a shipowner, or the charterer of a ship, for liability for loss of, or damage to, cargo if there has been a breach of the contract of carriage. This breach of contract usually means that something has happened to the cargo while it was on board the ship or being loaded or discharged, and for which the owner or charterer can be held responsible, i.e. shortage or damage to the cargo. Therefore, if a Bill of Lading is signed and states that 10,000 sacks of potatoes are loaded and only 9,500 are discharged – then the ship (the owner or charterer, or both) may be held liable for the loss. Usually, the cargo insurers will pay the person or company who owns the cargo (the receiver) for the costs of loss or damage to that cargo. The cargo underwriters will then seek to recover their losses from the shipowner or charterer. The P&I club will usually take over the handling of such claims on behalf of the assured. This is one of the reasons why evidence in the form of documentation, copies of the log book, surveys of damaged cargo, copies of tally books, dated photos of loading in the rain etc are very important in establishing the exact reason for the damage. There are certain defences open to the shipowner, such as being able to establish that the packaging of the cargo was not good enough to protect it during transportation. These defences are dealt with in more detail later in this publication. (See the exculpatory clauses in the Hague Rules on page 21.



*Liability for stowaways also comes under P&I insurance*

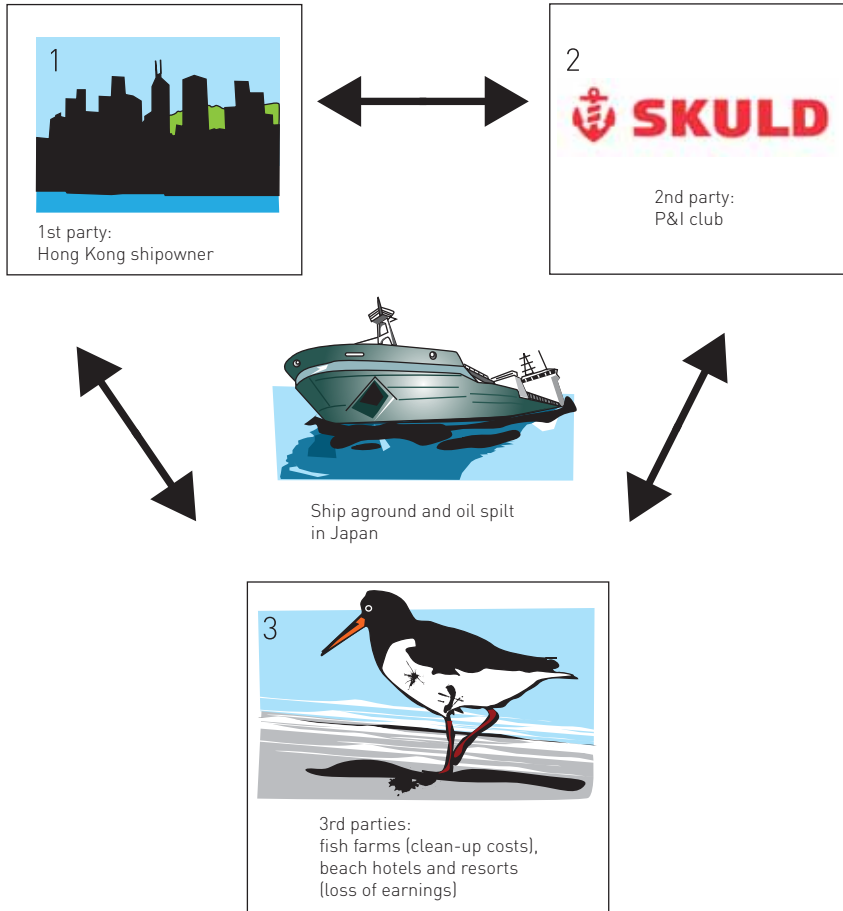
### **/ OTHER P&I COVERED RISKS**

Other risks covered include liability for stowaways, liability for oil pollution and other types of pollution and legal liability for wreck removal if the ship sinks and is blocking free navigation for other vessels. In short, P&I insurance is a very comprehensive type of insurance cover which makes it easier for a shipowner or charterer to trade in international shipping transportation. P&I is as important to a prudent shipowner as his Hull and Machinery insurance cover. A summary of the main risks covered is to be found at the back of this booklet.

### **/ SUMMARY**

P&I is a special type of marine insurance. It is a liability insurance that a prudent shipowner, manager or charterer needs, particularly if the ship is employed in international trade. P&I insurance covers a shipowner or charterer for liabilities and losses in direct connection with the operation of the ship. We often use the term “third party insurance” to explain P&I.

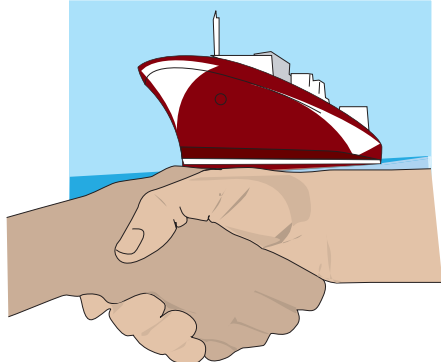
# WHO IS THE THIRD PARTY?



# / HOW MUTUAL P&I INSURANCE ACTUALLY WORKS

If a shipowner or charterer requires P&I insurance in connection with the operation of a vessel, he may contact a P&I association. A Protection and Indemnity association is often referred to as a “club”. This is because the members club together to insure similar risks on a mutual basis.

Mutual insurance means that the members of the club are its owners and share in its results. Therefore premiums are also mutual and estimated for a given policy year and finally decided when the year is closed which is minimum (but also normally) three years later. Premiums are therefore referred to as “calls”. An Estimated Total Call is calculated for any given ship. Calls may be charged all in advance, the full Estimated Total Call or divided into Advance and Supplementary Calls. The benefit of charging Estimated Total Call the first policy year is that the member may be able to fully budget his costs. Before the policy year is finally closed, the club can decide to cover the claims and to charge an Additional Supplementary Call. The reason why accounts are kept open is that cases continue to develop and could over time become more, or less, expensive than initially anticipated.



*In a P&I club members come together to insure similar risks on a mutual basis*

Accordingly, Estimated Total Calls could also be reduced. A mutual club may wish to increase its reserves, but does not make “profits” since there are no owners other than the members themselves. The club has a Board of Directors who, naturally, expect the managers to do a best possible job. In practice, this means providing insurance cover and first-class service, at the lowest possible cost. P&I (and Hull & Machinery) premiums are important parts of the overall operational costs, together with crewing, maintenance, store and supplies of fuel, etc.

The mutual system is occasionally challenged by what is referred to as “fixed premium facilities”. However, the know-how and claims handling expertise of the clubs, together with the universal acceptance of a club Letter of Undertaking, have so far made the clubs the preferred choice for the majority of owners and charterers.

There are many ways of measuring the performance of a P&I club. If members collectively have few claims – and club management does a good job of handling those claims on behalf of the members – costs can be kept to a minimum (heavy losses and many claims lead to higher premiums). But not even the world’s most quality-conscious operator, and most extensive loss prevention programmes, can eliminate claims altogether. Therefore, the member depends on his P&I insurance to give him the security of being able to trade in a competitive market.

# / INVESTMENT INCOME OF A P&I CLUB

A mutual P&I club will also be entrusted with a considerable amount of money in the form of premiums and reserves which the club must hold in order to be able to pay current and future claims. P&I insurance is often referred to as a “long tail” business. In other words, some claims can take months or even many years to settle. Therefore, the club must make provisions to meet the members’ liabilities for several years ahead and accordingly put money aside. This money must be invested wisely, i.e. to obtain the best possible interest or investment income with the best possible security.



*The club's reserves are invested wisely*



## /A CLUB'S CONTINGENCY FUND OR RESERVES

Investment income is a vital part of the club's overall financial strategy and often offsets a large part of the administration costs of the club. Furthermore, if a club does well in its investment policy, the extra money gained can go towards building up a club's contingency fund. A contingency fund helps to guard the members against extra calls if a particular insurance year contains many claims – leaving the club with a wider choice.

In fundamental terms, a mutual P&I club will operate in accordance with the following equation:

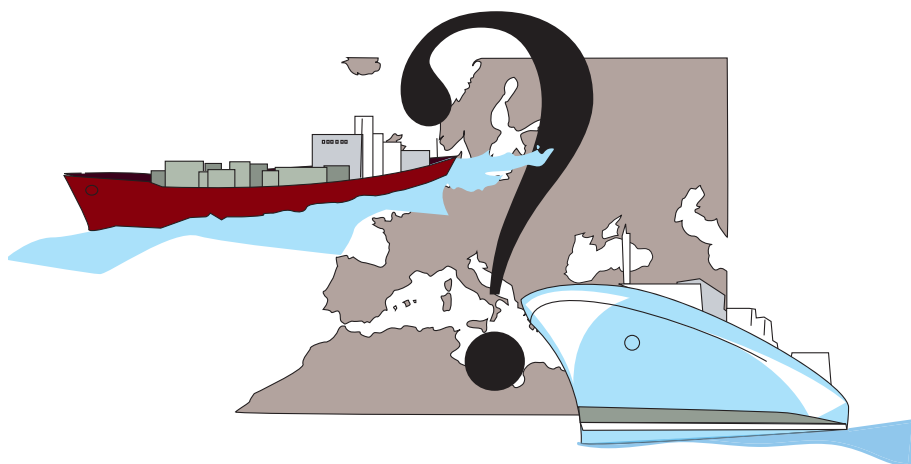
$$\boxed{\text{NET PREMIUMS}^*} = \boxed{\text{ESTIMATED CLAIMS}} + \boxed{\text{OPERATING COSTS}} + \boxed{\text{CLAIMS PAID}}$$

*\*Premiums paid less market reinsurance*

# / UNDERWRITING (EVALUATING THE RISK)

When a shipowner (when you read shipowner, please include manager or charterer) requires P&I insurance for a ship, the club underwriter will ask for information so that he can make a risk profile of the vessel. The underwriter is trying to understand what sort of risk or risks the vessel will represent in its current trading pattern. Some of the information he will require is:

- / The tonnage of the ship in GT (premiums are expressed in USD per GT)
- / Year of build
- / Number of crew members
- / Type of vessel  
(tanker, dry bulk, reefer, heavy-lift, container, passenger, ro-ro etc)
- / Type of cargoes to be carried (if a tanker is clean or dirty)
- / Areas of trading
- / Liner trade or tramp
- / Classification society
- / Management expertise
- / Compliance with national and international legal requirements
- / How many ships in the company
- / Previous P&I history



*It is essential to understand a vessel's trading pattern to build up a risk profile*

This seems like a great deal of information, but is necessary for the underwriter to assess the risk and calculate a fair rate or premium. The premium should represent a fair charge to cover the risk involved and to make sure that the other members of the club do not have to subsidise or lose benefits as a result of the new entry.

The club will often make a company audit with the management company of the ship. This is a very good opportunity to find out how the management of the ships is carried out and will add valuable information for the club underwriter. It also creates very good contact between the club and the new member which will facilitate future services when there is a claim or when the club is assisting in loss prevention measures.

In addition, the club will often require a survey of one or more ships in the new fleet to ensure the quality and technical standard of the ships. Entry into the club is often dependent upon the ship being found satisfactory on inspection. For the club this is positive information since it will be easier to assist if it should later be involved in a casualty.

# / STATISTICAL LOSS RECORDS

A P&I club will keep records for each individual ship entered with the club. These records are normally based on the last five insurance years and provide an accurate record of all payments made by the member in the form of premiums, all monies collected by the member in the form of compensation paid to him by the club and all other costs.

Over a five-year period records show:

- / The amount of premiums paid in by the member
- / The amount of money paid out for market reinsurance
- / The amount of money paid back to the owner as compensation
- / Other costs and the amount estimated for claims not settled

The club will prepare a loss record for each ship and the overall loss record for any given fleet. Through a sophisticated calculation taking account of, for example, reinsurance premiums and management expenses connected with running the club, a loss ratio (L/R) is established for the fleet. Generally speaking, the loss ratio is compensation and other costs paid out to and on behalf of a member, divided by the premium paid by the member.

The loss record, and more specifically the loss ratio, is often considered as a performance indicator of a member's account with the club. However, one should realise that a loss record for any limited fleet in a five-year perspective does not represent a true picture of the underlying risks for the fleet in question.



*Keeping loss records is an important part of a P&I club's work*

The loss ratio will therefore only be one of the elements that form the basis of the annual renewal process, where the P&I premiums for the coming year are fixed. A high level of claims, and hence a high loss ratio, will indicate that premiums may need to be increased and vice versa, but other risk measures are also used to establish the revised premium level.

Premiums should be adequate to ensure that a member contributes equally according to mutual principles. This implies that, in the long term, a profitable, or as a minimum, a break-even premium level has to be set for the member.

## / LOSS PREVENTION MEASURES

Skuld will also assist its members with loss prevention. Loss prevention has many faces, and a few important ones are mentioned below.

- Skuld is ready to participate at in-house seminars for staff, officers and crew. We can tailor a presentation on an agreed subject or talk about P&I in general.
- Skuld's Risk Management team can share experiences and advise on technical matters and risks.
- Skuld provides important and interesting information on the website. Make sure you visit the website regularly, or subscribe to RSS or e-mail alerts to keep you updated on news posted on [www.skuld.com](http://www.skuld.com).
- Skuld produces a magazine "Beacon" three to four times a year which every member receives free of charge.

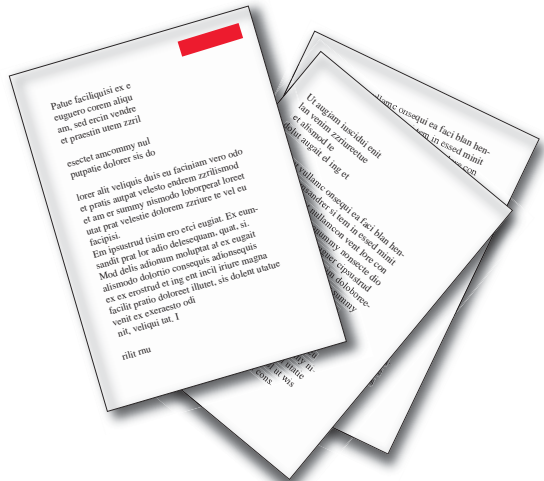
*Once the ship is accepted for entry into the club, a Certificate of Entry will be issued. This will be evidence of P&I insurance which has to be shown in most ports. The P&I insurance is renewed every year on 20 February – make sure you get a new Certificate on board as soon as possible!*

# / LIABILITY FOR DAMAGE TO CARGO, SKULD RULE 5

Damage to cargo is the most frequent type of liability that confronts a shipowner. Although the owner of the cargo will recover his losses from the cargo underwriter, the cargo underwriter will seek to recover his loss from the shipowner. The cargo underwriter may lodge a claim directly with the shipowner, or he may “sell” the claim to a professional claims recovery agent. This often results in an aggressive pursuit of the shipowner by a claimant who is interested in recovering as large a part of the cargo underwriter’s losses as possible. The shipowner will usually pass over the handling of the cargo claim to the P&I club.

If a claim is lodged against the “carrier” (owner, or charterer, or both) of a cargo for damage to that cargo, the claimant will often allege that the ship was unseaworthy at the commencement of the voyage. It is up to the shipowner to prove that the ship was seaworthy. If the shipowner is unable to do that, then he will lose the opportunity to invoke the 17 so-called “exculpatory clauses” which are usually incorporated into the Bill of Lading.

The Bill of Lading is an important document which has the function of (a) title to the goods, (b) receipt for the goods shipped, and (c) contract of carriage. The Bill of Lading must incorporate reference to a merchant shipping act or to the Hague or Hague/Visby Rules. The Hague Rules were first drawn up in 1924. They are still the basis for an international convention or agreement which sets



*The Bill of Lading details the title to the goods, contract of carriage and acts as a receipt for the goods shipped*

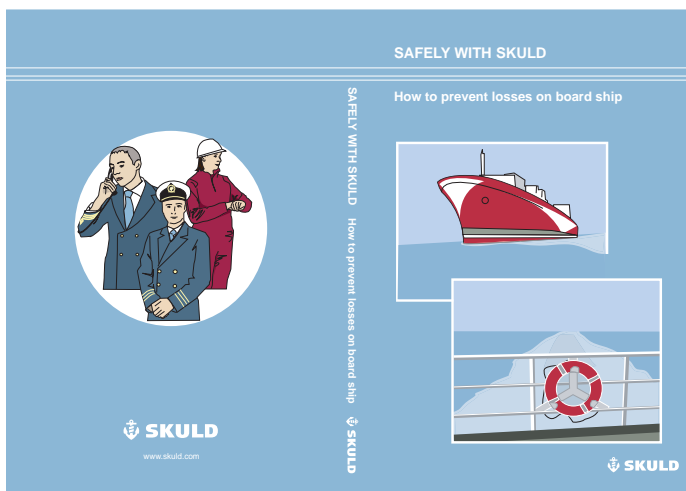
the framework for the rules dealing with procedures to establish who should actually pay for lost or damaged cargo. The “exculpatory clauses” according to the convention are listed under Article 4 Paragraph 2, which states:

“Neither the carrier nor the ship shall be responsible for loss or damage arising or resulting from:

- (a) Act, neglect, or default of the Master, mariner, pilot or the servants of the carrier in the navigation or in the management of the ship
- (b) Fire, unless caused by the actual fault or privity of the carrier
- (c) Perils, dangers and accidents of the sea or other navigable waters
- (d) Act of God
- (e) Act of War
- (f) Act of public enemies
- (g) Arrest or restraint of princes, rulers or people, or seizure under legal process
- (h) Quarantine restrictions
- (i) Act or omission of the shipper or owner of the goods, his agent or representative
- (j) Strikes or lockouts or stoppage or restraint of labour from whatever cause, whether partial or general
- (k) Riots or civil commotions
- (l) Saving or attempting to save life or property at sea
- (m) Wastage in bulk or weight or any other loss or damage arising from inherent defect, quality or vice of the goods
- (n) Insufficiency of packing
- (o) Insufficiency or inadequacy of marks
- (p) Latent defects not discoverable by due diligence
- (q) Any other cause arising without the actual fault or privity of the carrier, or without the fault or neglect of the agents or servants of the carrier, but the burden of proof shall be on the person claiming the benefit of this exception to show that neither the actual fault or privity of the carrier nor the fault or neglect of the agents or servants of the carrier contributed to the loss or damage.”

*Important – remember that none of the above 17 clauses can be used as a defence if the shipowner (with the Master’s help) is unable to prove that the ship was seaworthy at the commencement of the voyage.*

The claims handling process can often be lengthy and complicated. It involves trying to establish the exact cause of the damage or loss of the cargo. This is where the Master and officers play an enormously important part – although they are seldom party to the claims handling work. When accidents occur involving the cargo, it is important for the Master to collect evidence to establish the cause of the accident. That evidence may include anything from a video record of damaged cargo coming on board, colour photographs, sketches in a diary or day-book, recordings of events in the log book or other written evidence.



*“Safely with Skuld- How to prevent losses on board ship” is available free of charge to Skuld Members*

The following advice is taken from Skuld’s booklet, “Safely with Skuld – How to prevent losses on board ship”. These hints are intended to help the Master and his senior officers take care of the cargo in such a way that cargo claims do not occur. If a cargo claim is successfully pursued against a shipowner, this will mean that he must pay for the damage or loss of the cargo. Although he can recover this financial loss (less the agreed deductible) from his P&I club, his loss ratio statistics will be loaded with the amount of compensation and possibly lead to an increase in his P&I premium.



# / LIABILITY FOR DAMAGE TO CARGO

Damage to cargo is the most frequent type of liability that confronts a shipowner. Unfortunately, cargo damage is often caused by small mistakes.

An important function of the Bill of Lading (B/L) is to describe the condition and quantity of the cargo as received on board. If the cargo is discharged in a different condition, or in lesser quantity than that entered on the B/L, the shipowner may be held liable for the damage or shortage.

## / HOW YOU CAN HELP

### *Is it damaged?*

Inspect cargo as it comes on board.

### *Record the damage*

If you receive damaged cargo or less cargo than declared for shipment, make sure the damage or shortage is recorded on the Mate's Receipt for clausing of the B/L. Notify the shipper and charterers that you intend to alter the shipping document to reflect your observations.



*Inspect the cargo and record any differences*

### *No "back letters"*

Do not give authority to sign a clean B/L in exchange for a "back letter" or indemnity – such action can be fraudulent and may make the P&I insurance invalid.

### *Tally*

The tallying of cargo during loading and discharge is a useful way to avoid or limit shortfalls.

### *Record inspections*

Record in the log book inspections of cargo holds undertaken by the ship's officers or crew during the voyage.

### *Safely stowed*

Make sure that cargo is carefully and safely loaded, stowed, separated, carried and discharged.



*Safely stow the cargo.*

### *Put it in writing*

In Time Charters applicable to dry cargo vessels, the responsibility for load, stow, trim and discharge operations is sometimes transferred from the shipowners to the charterers. Therefore, if you see reason to interfere in the way the charterers, or their supercargo, stow or handle the cargo, make sure you carefully write down your reason for objecting. Report your remarks to the ship's owners. In this respect, photographs can be very useful.

### *Seaworthiness*

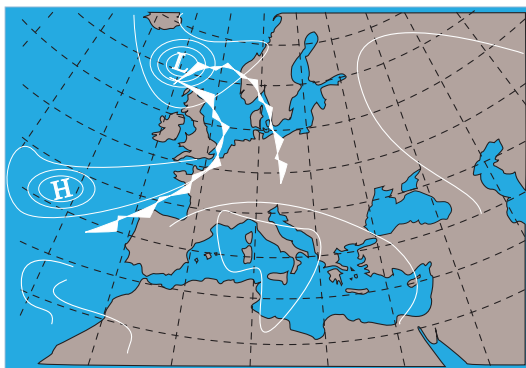
Remember the Master always has the final responsibility for the seaworthiness of the vessel.

### *Survey the damage*

If you suspect that your cargo may have been damaged during the voyage, inform the ship's owners. They should then request Skuld to arrange for a surveyor to meet you at your destination. Alternatively, you can always contact your local Skuld correspondent. They are instructed to immediately assist you in any way.

### *Weather reports*

In case of heavy weather, keep a copy of any meteorological reports or warnings, and properly record the conditions in the ship's log. This particularly applies to adverse sea conditions which may cause damage to the goods on board.



*Keep copies of weather reports*

### *Protest*

Lodge a sea protest at your next port of call and make sure a log extract showing relevant entries is attached. Co-operate as much as possible with the surveyor appointed on behalf of the owners at the destination. If possible, the Master should attend the survey of the damaged cargo himself, or have his Chief Officer attend.

### *Keep unidentified people away*

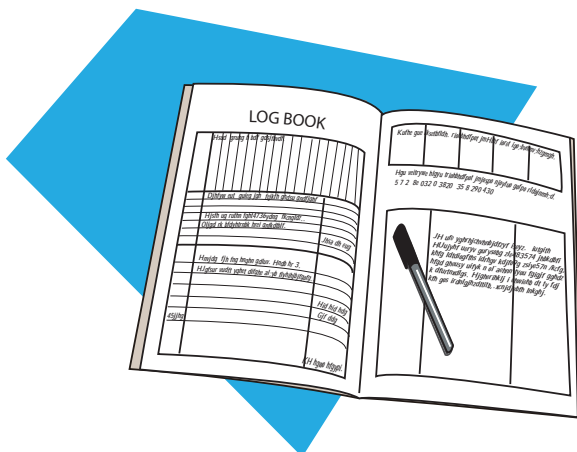
Consult the local Skuld correspondent before giving permission for unauthorised surveyors or lawyers to board the vessel. Protect the owners' interests by posting a gangway watch and, if necessary, prevent unauthorised people from boarding the vessel.

## Keep wet cargo separate

Damage can be reduced by the immediate separation of wet cargo (e.g. wet fertiliser) from the rest of the cargo.

## Log it!

Record in the log book any known cause of damage to the cargo, e.g. freak waves, heavy weather (particularly if you reduce speed or alter course) etc. Also note any other event that may have a bearing on the cargo carried, e.g. ventilation to avoid condensation, relevant dew-point readings in the cargo spaces and outside etc.



*Record all details concerning the cargo in the log book*

## Surrender of cargo

Cargo must only be delivered to the holder of the original B/L or his agent. This important formality is usually attended to by the ship's agents, but if you do find yourself in a difficult or worrying situation, contact the local Skuld correspondent.

Before leaving the subject of damage or loss to cargo, it might be appropriate to recall Article 3, paragraph 2:

*“Subject to the provisions of Article 4 of the Hague Rules, the carrier shall properly and carefully load, handle, stow, carry, keep, care for, and discharge the goods carried.”*

# / EXTRAORDINARY HANDLING COSTS



*Bulk cargo that has solidified incurs extraordinary handling costs*

Skuld P&I Rule 6 states:

**6.1** The standard insurance shall cover the member's extra costs, and liability for extra costs, in connection with or as a consequence of handling and disposing of cargo, where such costs are necessarily, reasonably and solely incurred as a direct result of: 6.1.1 damage to cargo on board the entered vessel, 6.1.2 damage to the vessel which is of a type that would be covered under a standard hull policy, or 6.1.3 the consignee's rejection of cargo carried on board the vessel.

**6.2** The Skuld Rule book sets out a list of exceptions which we suggest you read if you are involved in the above mentioned extraordinary handling costs. The exceptions are applied to cover which is dealt with elsewhere in the Rules such as claims recoverable under general average. Also the usual daily running costs of the vessel are excluded (or excepted) from the insurance cover.

Again, it is important for the Master to have a record of the events which made the extraordinary handling costs necessary.

# / DEATH AND PERSONAL INJURY

It is necessary for a Master and his senior officers to have a good idea of what his P&I club's rules state on the insurance cover for personal injury, illness and loss of life.

However, the very best way that a Master can help the ship's owner is to ensure that he does all in his power to prevent injury and illness on board his ship. This work is closely connected with the company's policy of Safety Management and is also closely related to the implementation of the International Safety Management Code.

In the Skuld publication, "Safely with Skuld – How to prevent losses on board ship", there are a number of points which are helpful to Masters and senior officers in the event of an accident involving personal injury occurring on board ship:

## / LIABILITY FOR PERSONAL INJURY

Any person injured on your ship – crew, stevedores, pilots or passengers, for example – may allege that your ship was unsafe. The injured person could decide to sue the ship and her owners and demand huge sums of money as compensation.

## / HOW YOU CAN HELP

### *Motivate your crew*

Motivate your crew to make sure your ship is a safe place.

### *Keep it ship-shape*

Always make sure that gangways, walkways and all areas where crew, visitors, or stevedores must work or pass, are free of obstructions, such as chains, cables and ropes. Clean up oil or other slippery substances immediately. Keep all places of work, including the accommodation and food areas, clean and ship-shape.



*Motivate your crew*

*Give medical help*

If an accident does happen, ensure that the injured person receives proper medical attention.

*Report and log it*

Make sure all accidents are reported to you, and that an entry, accurately recording the details of the accident, is entered in the log book.

*Keep unidentified people away*

Unidentified personnel should not be allowed on board at any time unless accompanied by a designated crew member. In all incidents, please contact the local Skuld correspondent before allowing unidentified persons to investigate or take statements from you and your crew. Ensure that the ship's security plan is complied with at all times.

### *Put it on film*

In the event of an accident, find out exactly what happened and photograph the scene of the accident if possible. Record the names, addresses and telephone numbers of all witnesses.



*Photograph or video the scene*

### *Skuld correspondent*

In case of accidents, inform the ship's owners and Skuld's local correspondent as soon as possible.



# / PASSENGER CLAIMS

The carriage of passengers (a very special type of cargo), can involve their death, illness or injury. Their carriage is subject to Skuld Rule 8 which details the terms of the P&I insurance cover. These terms deal with the owner's liability for loss arising out of delay of transportation of embarked passengers, provided such liability is attributable to compulsory law. However, there is usually a condition in passenger tickets excluding

costs as a result of delay. We have included this item to illustrate that P&I insurance can often be quite difficult to understand, as several contracts must be examined before one can establish whether or not an incurred expense is actually recoverable by the owner. Other costs which are much more straightforward to understand

are the costs of medical treatment for passengers who have become ill or have been injured on board. In addition, if there is a casualty such as grounding, collision or breakdown, the insurance will cover a shipowner for the costs of transporting the passengers to their original destinations or back to the port of departure. If you are the Master of a vessel carrying passengers, it is advisable to check on the conditions of carriage as outlined on the tickets – and read through the rule concerning P&I insurance cover.



*Passenger injury comes under P&I insurance*

# / STOWAWAYS, REFUGEES AND PERSONS SAVED AT SEA

The standard insurance covers the member's extra costs incurred as a result of stowaways, refugees and shipwrecked persons coming on board. This includes costs of re-directing the ship, such as extra bunker charges, insurance, wages, stores, provisions and port dues.

The following advice is taken from the Skuld booklet "Safely with Skuld – How to prevent losses on board ship".

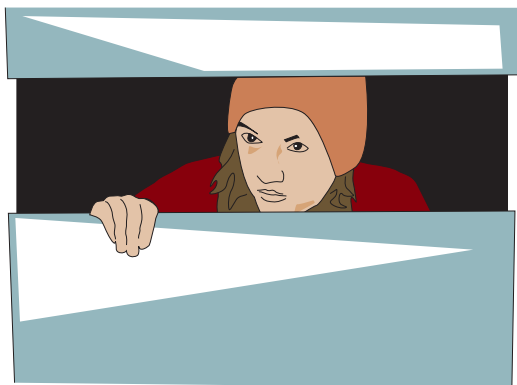
## / LIABILITY FOR STOWAWAYS

Stowaways are becoming an increasing problem in many areas such as Africa, South America and the Caribbean Islands. They often involve the shipowners, charterers and the P&I club in costly and time-consuming effort.

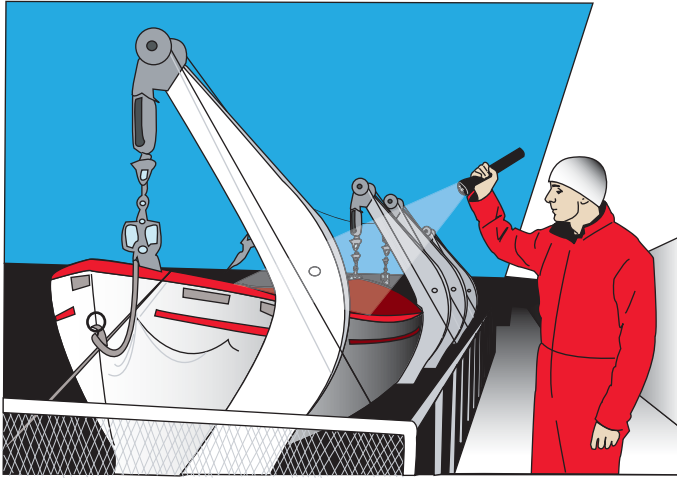
## / HOW YOU CAN HELP

### *Stop them!*

It is important to tighten up controls granting access to the ship, e.g. use a system of passes for all stevedores, post crew members to watch the gangway.



*Stop stowaways boarding*



*Thoroughly search the ship before sailing*

### *Search the ship*

Before leaving ports where stowaways are known to be a problem, make a systematic search of the whole ship. In many ports, it is possible to hire security companies which will undertake such searches on a “no cure, no pay” basis. This has proved to be very effective.

### *Hand them over*

If stowaways are found, they should be turned over to the port authorities or the police immediately prior to sailing.

### *Turn back?*

If the ship has already sailed when stowaways are discovered, consult with the owner’s office and the Skuld correspondent on the possibility of returning to the last port.

### *Inform the agent*

Try to hand over the stowaways if the vessel returns to the port where they embarked. To make it easier to hand them over to the authorities, you should send a communication to your agent or the port authorities, informing them that you have discovered stowaways on board after the ship left that port. The message should state that the stowaways will be delivered to the port authorities when the ship

returns, and the ETA. It is important that this message is sent before the ship calls at another port.

Skuld, if informed about stowaways at an early stage, will try to assist in obtaining permission to return them to their own country. However, kindly bear in mind that this may take some time, and you may be stuck with them for weeks, or even months, before they can be returned. The best advice is – prevent them from boarding the vessel.

*No port of call*

When the vessel is in “stowaway territory”, an additional precaution could be to refrain from posting or writing the next port of call and ETD on the gangway notice-board – or, better still, write some unattractive destination!



*Collect the stowaway's papers*

### *Collect all identification papers*

Any information, such as passport details (particularly numbers, dates and places of issue), ID cards and seamen's books can be useful. If these papers are not available, note down the stowaways' names, dates of birth, addresses, nationalities, names of parents and their addresses, religions and tribes (in the case of Africans). Finally, take a passport style photograph and finger prints. These should be sent to Skuld or to the address required by Skuld.

### *Treat them humanely*

Treat the stowaways humanely and ensure that they are confined to a secure area. Adequate food and accommodation should be provided. It is not recommended that they be put to work or be allowed to associate with the crew. Please bear in mind that if the stowaways are made to feel too welcome, they will tell their friends when they get home. This could encourage others to stowaway.



*Keep the stowaway alone in a secure area*

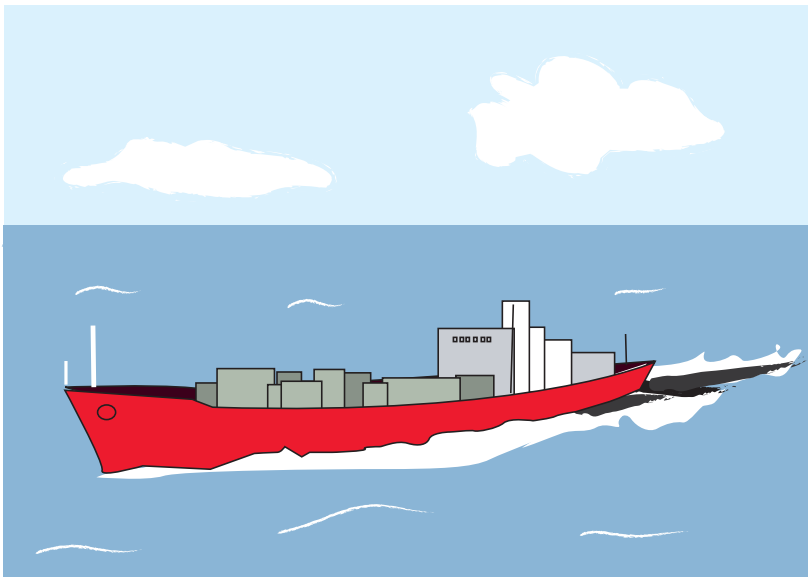
### *Search the stowaway*

After a few days, stowaways should be removed from their quarters and searched for ID papers. Their quarters should also be thoroughly searched for any hidden documents.

# / POLLUTION

The insurance is set out in detail under Skuld's Rule 14 and covers the member in respect of liability arising out of the actual or threatened escape or discharge from the entered vessel of oil or other polluting substances etc.

Pollution has become a major media event. The Skuld club has been actively engaged with many major oil spill incidents, such as the "Sea Empress", "Braer" and "Hebei Spirit". Shipping in general, and the tanker industry in particular, has reduced accidents by improving standards. To a large extent this is due to the fact that preparedness by the tanker industry, management companies, maritime crews, onshore response teams and the P&I clubs all have spent time and money on improving their emergency response procedures. The tanker industry has spent large amounts of money on improving operational procedures and on training crew in order to prevent spills



*The media has put a spotlight on oil pollution*

from taking place. Much of this work is now standardised in company instructions, safety management plans, the implementation of STCW conventions and the International Safety Management Code.

The vast majority of pollution incidents are usually connected with bunkering operations from dry cargo vessels, and bunkering and cargo operations from tankers. It is important for the Master and his senior officers to make sure established routines are followed in accordance with company policy. It is also advisable to make sure that deck scuppers are plugged and that clear lines of communication are established between the bunkering station or bunkering barge and the ship. A watch should be posted at all times during the operation and the man posted to keep watch should clearly understand what his duties are, particularly in the event of an overflow.

The following useful advice has been taken from “Safely with Skuld – How to prevent losses on board ship”.

## / LIABILITY FOR POLLUTION

Oil from your ship which pollutes a harbour, dock or waterway will have to be cleaned up. Clean-up costs will be charged to the ship and fines may be imposed on the ship, the Master, and the Chief Engineer. Your ship could be arrested, and the owners required to establish some form of security acceptable to the port authorities.

# / HOW YOU CAN HELP

## *Stop it!*

If the oil is from your ship, make sure that the leakage or overflow has stopped. Take samples of the oil on your ship.

## *Inform authorities*

Immediately inform the port authorities, the Coast Guard and other relevant authorities. Do not try to hide the fact that you have caused pollution. Be accurate when estimating the spillage. Reducing the estimates reported in the hope of avoiding problems does not help.



*Block all deck scuppers*

## *Skuld correspondent*

Immediately obtain assistance from the nearest Skuld correspondent in all oil pollution accidents.





*Take samples*

### *Samples*

Even if the oil is not from your ship, still inform the authorities. Always try to obtain sealed samples of the floating oil and take samples of the oil on board your ship for laboratory comparisons. In addition, obtain one set of samples and keep it on board for identification purposes. All sampling should be taken care of by certified personnel.

### *Log it!*

Record all details in the log book.

### *Update the oil record book*

Make sure the oil record book is up-to-date. Never make false entries.

### *Trade to the USA*

For trade to the United States, make sure your ship complies with the special US Coast Guard regulations for US waters and in particular the OPA 90 (Oil Pollution Act, 1990) and COFR (Certificate of Financial Responsibility) requirements.

### *CLC certificate*

If your ship is a tanker carrying a cargo of more than 2,000 tons of persistent oil in bulk, make sure you have a CLC (International Civil Liability Convention for Oil Pollution) certificate on board.

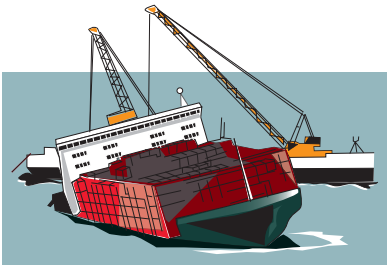
### *Bunker Convention Certificate*

If your ship is over 1,000 gt, it will probably need a Certificate under the Bunker Convention.

## / WRECK REMOVAL AND OBSTRUCTION

### *Skuld Rule 15 Wreck Removal*

“The standard insurance shall cover liability and costs arising out of the raising, removal, destruction or marking of the wreck of the entered vessel, her equipment, bunkers or cargo lost as a result of a casualty, in so far as the raising and other operations are compulsory by law, or necessary to avoid or remove a hazard or obstruction to navigation, or the costs are legally recoverable from the member.” (The shipowner.)



*Costs incurred removing a wreck fall under Skuld Rule 15*

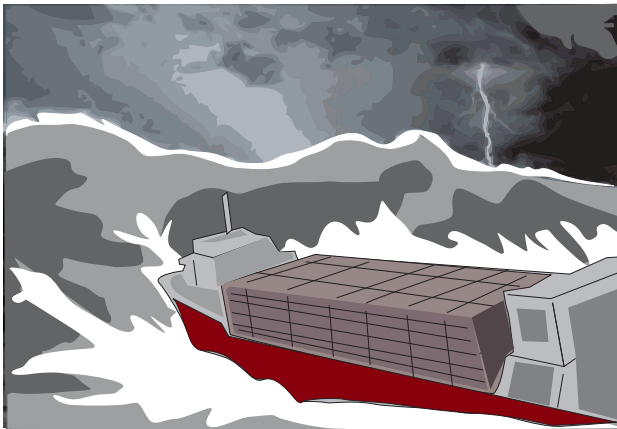
### *Skuld Rule 16 Obstruction*

“The standard insurance shall cover liability to owners of harbours, wharves, canals or similar structures or to the owners of other vessels, arising out of the entered vessel causing an obstruction as a result of a casualty.”

# / GENERAL AVERAGE CONTRIBUTIONS – CARGO

## Skuld Rule 17

“The standard insurance shall cover the member’s loss in respect of general average expenditure and special charges which should be paid by the cargo interest or some other party to the maritime adventure but which are not legally recoverable solely by reason of a breach of the contract of carriage.”



*Cargo jettisoned to  
regain safe trim*

The basis for general average is that a ship and her cargo are involved in a common adventure and, during a voyage, share exposure to essentially the same maritime dangers. Where, in order to protect the adventure from the onset of a specific danger, one of the parties makes a sacrifice of property or incurs expenditure, such sacrifice or expenditure may give rise to an allowance in general average. The total of such general average allowances is shared between the various properties which have benefited in proportion to the individual values of such property at the end of the voyage.

The principles of general average are set out and agreed under the terms of an international set of rules referred to as the York/Antwerp Rules.

Characteristic types of general average allowances are shown in the table below.

CASUALTY	GENERAL AVERAGE ALLOWANCE
<i>Fire</i>	<ul style="list-style-type: none"> <li>• Damage to ship or cargo resulting from efforts to extinguish a fire</li> <li>• Payments to salvors helping to extinguish a fire</li> <li>• Port of refuge expenses</li> </ul>
<i>Stranding</i>	<ul style="list-style-type: none"> <li>• Payments to salvors for services in refloating the ship</li> <li>• Damage to the ship or cargo resulting from efforts to refloat</li> <li>• Loss of, or damage to, cargo jettisoned or forcibly discharged to allow the vessel to refloat</li> <li>• Port of refuge expenses</li> </ul>
<i>Shifting of cargo</i>	<ul style="list-style-type: none"> <li>• Cargo jettisoned to regain safe trim</li> <li>• Port of refuge expenses during period required for re-stowage</li> </ul>
<i>Machinery breakdown, collision, heavy weather, or other accidental circumstances threatening the adventure</i>	<ul style="list-style-type: none"> <li>• Payments to salvors</li> <li>• Port of refuge expenses</li> </ul>

# / FINES

Since fines are imposed for breaches of criminal law, they are generally not covered by insurance. However, P&I clubs do indemnify members for fines imposed in a few very specific cases. Rule 19 provides cover for fines imposed for

- breach of immigration laws
- inaccuracies in cargo documentation
- accidental pollution
- smuggling or infringement of customs laws

The club only provides cover for fines imposed on the member, not the crew. However, the club does have a discretion to cover members if they pay a fine imposed on the master or crew because they are legally obliged to do so, or because the club accepts that it was reasonable to do so.

# / SUMMARY OF MAIN RISKS COVERED BY SKULD UNDER P&I INSURANCE COVER

- *Cargo:*  
Liability for cargo loss, shortage, damage, extra handling costs or delay occurring in relation to the carriage of cargo on the entered vessel. By special arrangement, the cover can be extended to include claims arising under a contract of through-carriage.
- *Crew, passengers and other persons:*  
Loss of life, personal injury and life salvage claims in respect of members of the crew and third parties, e.g. passengers, crew, relatives, stevedores and other personnel on board required for the operation of the vessel. Hospital, medical, funeral and repatriation expenses (including owners' liability for wages as agreed) in respect of sick or injured crew members. Further, repatriation expenses, unemployment indemnities and loss of effects of shipwrecked crew.
- *Pollution:*  
Oil or any other polluting substance escaping from, or caused by, an entered ship resulting in pollution of sea, land or air.
- *Collision and contact liability:*  
Liability arising out of collision with another vessel, a fixed or floating object or property (e.g. docks, buoys, etc.) may be included when not covered under another policy. Further, liability with respect to damage to any other vessel or property thereon without actual contact is included in the cover. Full collision liability is available.
- *Wreck removal and obstruction:*  
Liability and costs of compulsorily removing, destroying or marking the wreck. Further, liability arising out of the entered vessel causing an obstruction.

- *General average contribution:*  
Cargo's proportion of general average and/or special charges not recoverable due to breach of the contract of carriage. Ship's proportion of general average and salvage charges not otherwise recoverable from excessive valuation of the ship in a foreign country.
- *Fines:*  
Fines imposed by authorities for short or over delivery of cargo, cargo documents, pollution, smuggling, breach of regulations, etc.
- *Quarantine and disinfection requirements:*  
Extraordinary expenses incurred in cases of outbreak of infectious disease. Also quarantine and disinfection expenses.
- *Liabilities for stowaways, diversions, refugees, salvage and towage, container operations, mitigation costs including legal and associated costs.*

Please refer to Skuld's Rules for details.

## / SKULD'S PRODUCT RANGE

- / Mutual Protection & Indemnity
  - Ancillary covers
- / Charterers' Liability
  - Charterers' P&I
  - Charterers' Liability to Hull
  - Charterers' Ancillary covers
- / Freight Demurrage & Defence
- / Offshore Liability
  - Streamlined package solution
- / Hull War Risks

# / ANCILLARY COVERS

## / WHEN YOU REQUIRE ADDITIONAL PROTECTION

Skuld offers a variety of ancillary covers for liabilities falling outside the scope of standard P&I or Defence Insurance. We would like to emphasise that the range of covers is under continuous development in order to fulfil members' requirements.

Ancillary covers are usually offered to members on a case-by-case basis. However, depending on individual needs, members can select all and any of the risks, and Skuld will tailor a comprehensive cover for the fleet on an annual basis. This cover is the most cost efficient for members, while at the same time ensuring that potential gaps from placing several different covers are avoided.

## / ANCILLARY COVERS

### **CARGO related**

- Comprehensive Shipowners Liability (" SOL") Insurance
- Breaches of Contract of Carriage of Cargo
- Carriage of Cargo on Deck with Under Deck B/L
- Through Transit Liabilities for Cargo and Third Party
- Extended Cargo Liability Insurance
- Carriage of Ad valorem Cargo
- Carriage of Cash, Bullion etc as Cargo
- Liability as Bailee of Cargo
- Storage of Cargo in Excess of 21 days

### **PERSON related**

- Comprehensive Crew Insurance
- Liability to Persons on board & Liability arising out of the Presence of Persons
- Crew Managers' Liability Insurance
- Extended Passenger Liability
- Crew War Risks



## **CHARTERER related**

- Charterer's Liability for Damage to Hull (CLH)
- Charterer's Liability for Pollution
- Voyage Charterers' Comprehensive Cover (VCCC)

## **PROPERTY & LIABILITY**

- Bunkers Insurance
- Containers & Container Liability
- Cargo-handling Equipment & Liability
- Bunkers Expenses Insurance

## **EXTENDED CONTRACTUAL LIABILITY**

- Extended Contractual Liability (ECL) Insurance
- Specialist Operations
- Towage by an Insured Vessel
- Towage of an Insured Vessel
- Contract of Indemnity
- Sub-Sea Activities Insurance

## **REVENUE AND EXPENSES PROTECTION**

- Drug Seizure
- Freight and Loss of Profit Insurance

## **MISCELLANEOUS**

- Shipowners' Liability arising under Exxon GA C/P Clause
- Hull War Risk Insurance

**For detailed and up-to-date information regarding Skuld's ancillary covers, please see [www.skuld.com](http://www.skuld.com) or contact us.**

# /NOTES

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# /NOTES

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