

*Trine-Lise Wilhelmsen
Hans Jacob Bull*

HANDBOOK
in
HULL INSURANCE

TRINE-LISE WILHELMSEN

HANS JACOB BULL

HANDBOOK IN HULL INSURANCE



© Gyldendal Norsk Forlag AS 2007
1st edition 2007

ISBN 978-82-05-48020-9

Cover design: Gyldendal Akademisk
Layout: Laboremus Prepress AS
Typeset: Minion 10,5/15 pt.

Gyldendal Akademisk
Postboks 6730 St. Olavs plass
0130 Oslo
Norway

www.gyldendal.no/akademisk
akademisk@gyldendal.no

All rights reserved. No part of this work covered by the copyright may be reproduced in any form or
by any means – graphic, electronic or mechanical, including photocopying, taping or information
storage and retrieval systems – without the written permission of the publisher.

Preface

Preface by DNK and NHC

14 years have passed since the first Handbook in Hull insurance was published in 1993, authored by Professor Sjur Brækhus and advocate Alex. Rein. There has been a significant development in the international marine insurance market with a number of new and revised conditions introduced since 1993. A new version of the Hull insurance handbook is timely as it covers a legal area with few available text books.

Professors Trine-Lise Wilhelmsen and Hans Jacob Bull have kindly undertaken to write a new and updated version of the book, on request by Norwegian Hull Club and Den Norske Krigsforsikring for Skib. Both Clubs are extremely thankful to the authors for their willingness to undertake this task making it possible to publish this book. This work has come as an add-on to their busy schedules at the Scandinavian Institute of Maritime Law in Oslo. We are proud to be associated with their quality work.

We are hopeful that this book will be useful to a number of different people and professions who at various levels get involved with Hull insurance, not only in Norway, but also on the international arena. For that reason this book is being published in English. The book is written for all marine insurance practitioners in shipowning companies, insurance companies, students as well as lawyers and others who have some kind of involvement with Hull insurance.

Bergen / Oslo, November 2007

Norwegian Hull Club – Den norske Krigsforsikring for Skib – Gjensidig

John Wiik Bjørn Eidem

Preface by the authors

This is the first edition of a handbook in Norwegian hull insurance based on the Norwegian Marine Insurance Plan 1996 Version 2007 with a comparative look to English marine insurance. The purpose of the book is partly to provide a handbook for the marine insurance market both in Norway and in other countries, partly to serve as part of the main literature in the new course in Marine Insurance that was introduced at the Scandinavian Institute of Maritime law during the spring of 2007.

The book is written by the professors Trine-Lise Wilhelmsen and Hans Jacob Bull at the University of Oslo, the Scandinavian Institute of Maritime Law at the Faculty of Law. Both the writing and the publishing have been financed by the insurance companies The Norwegian Hull Club and Den norske Krigsforsikring for Skib. The authors wish to express their gratitude to the two principals for making this task possible.

The book is based mainly on the Commentary to the Marine Insurance Plan 1996 Version 2007 and Brækhus/Rein: Håndbok i kaskoforsikring, Oslo 1993 (Handbook in hull insurance). Reference to these two legal sources is only included in special circumstances. If the reference to the Commentary includes a page, the reference is to the 2002 paper edition of the Commentary to the Norwegian Marine Insurance Plan 1996. However, as the 2007 Version of the Commentary is not published in paper, but only presented on the web site, several references are tied to the relevant provision without a page reference.

The book is as mentioned written in cooperation between Trine-Lise Wilhelmsen and Hans Jacob Bull. Hans Jacob Bull has written sub-chapter 5.2.3 and chapters 8, 11 and 12, whereas Trine-Lise Wilhelmsen has written the rest. Several people have provided valuable help during the work. The average adjuster Bjørn Slaatten has read the whole book and provided several comments. Attorney Haakon Stang Lund at Wikborg Rein AS read and commented the first 6 chapters at an early stage. Director Svein Ringbakken at Den norske Krigsforsikring for Skib has read and commented upon chapter 14 concerning "War risk insurance." Further, underwriting manager Lone Scheuer Larsen at TrygVesta in Denmark has provided a lot of corrections and comments after having read the book as a student on the Marine Insurance course the spring of 2007. All the comments are included in the final version. Ben-Jacob Diewitz, who was trainee at the Institute

in September 2007, proof read the manuscript and checked all references. Casper Meland from Norwegian Hull Club marked all the words for the index and also made several valuable corrections. We would like to express our greatest gratitude to all the contributors.

As this is the first edition, we will of course welcome any comments that may help us to improve further editions of the book.

Trine-Lise Wilhelmsen Hans Jacob Bull

Contents

Chapter 1	Introduction	25
Chapter 2	The sources of law	27
Chapter 3	The insurance contract	38
Chapter 4	The object insured, insurable value and sum insured	60
Chapter 5	The scope of cover	79
Chapter 6	The duties of disclosure and due care	137
Chapter 7	Co-insurance	200
Chapter 8	The insurer's liability for costs of measures to avert or minimise the loss	209
Chapter 9	Total loss	227
Chapter 10	Damage	248
Chapter 11	Liability of the assured arising from collision or striking	283
Chapter 12	Settlement of claims	310
Chapter 13	Separate insurances against total loss	334
Chapter 14	War risk insurance	339

Table of contents

LIST OF ABBREVIATIONS	23
CHAPTER 1 INTRODUCTION	25
CHAPTER 2 THE SOURCES OF LAW	27
2.1 Norwegian hull insurance	27
2.1.1 The Insurance Contracts Act	27
2.1.2 The Norwegian Marine Insurance Plan	28
2.1.3 Literature	32
2.2 International hull insurance	33
2.2.1 Attempts at internationalisation	33
2.2.2 Denmark	34
2.2.3 Sweden	35
2.2.4 Finland	35
2.2.5 UK	36
CHAPTER 3 THE INSURANCE CONTRACT	38
3.1 The parties to the insurance contract	38
3.1.1 The insurer	38
3.1.1.1 The Norwegian hull insurance market	38
3.1.1.2 The English hull insurance market	38
3.1.1.3 Insurance brokers	40
3.1.1.4 Co-insurance. Claims leader	40
3.1.1.5 Reinsurance	44
3.1.2 The person entering into the contract	45
3.1.3 The assured	46
3.1.3.1 The starting point	46

TABLE OF CONTENTS

3.1.3.2	Co-insurance for third parties	46
3.2	Concluding the insurance contract	46
3.2.1	Procedures for concluding the contract	46
3.2.2	The Policy	48
3.3	The premium	49
3.3.1	The basic premium	49
3.3.2	Additional premium and reduction of premium	50
3.3.2.1	Overview	50
3.3.2.2	Extension or reduction in the insurance period	50
3.3.2.3	Additional premium for certain trades	52
3.3.2.4	Reduction of premium when the ship is laid up etc.	52
3.3.3	The duty to pay premium. Non payment	54
3.3.4	Claim for return of premium	55
3.4	Jurisdiction and choice of law	55
3.5	Period of insurance	56
3.5.1	The starting points	56
3.5.2	Extension of the period of insurance due to a casualty	58

CHAPTER 4 THE OBJECT INSURED, INSURABLE

	VALUE AND SUM INSURED	60
4.1	The object insured	60
4.1.1	The need for identification	60
4.1.2	The ship	61
4.1.3	Equipment and spare parts	61
4.1.3.1	The concept of "equipment" in the Plan	61
4.1.3.2	The concept of spare parts	62
4.1.3.3	Ownership is normally not required	63
4.1.4	Equipment that is excluded	63
4.1.5	Objects that are temporarily removed	64
4.2	Insurable interest and insurable value	66
4.2.1	Insurable interest	66
4.2.2	The concept of insurable value and its significance	67
4.2.3	Open insurable value	67
4.2.4	Assessed insurable value	68
4.2.4.1	The assessment	68
4.2.4.2	Setting aside the assessed insurable value	69
4.3	The sum insured	70
4.3.1	Introduction	70
4.3.2	The sum insured as a limit for the insurers liability	70
4.3.2.1	One sum insured for each casualty	70
4.3.2.2	The sum insured as the limit for liability	73
4.3.2.3	Liability in excess of the sum insured	74

TABLE OF CONTENTS

4.3.2.4	The limit of liability when there is a combination of perils	74
4.3.3	Payment of the sum insured to avoid further liability	74
4.3.4	Over-insurance and under-insurance	75
4.3.4.1	Over-insurance	75
4.3.4.2	Under-insurance	76
4.3.5	Double insurance and subsidiary insurance	76
4.3.5.1	Double insurance	76
4.3.5.2	Subsidiary insurance	77
 CHAPTER 5 THE SCOPE OF COVER		 79
5.1	Introduction	79
5.2	Perils insured against	80
5.2.1	Introduction	80
5.2.2	The main cover according to NMIP § 2-8	81
5.2.2.1	Perils of the sea and nature	81
5.2.2.2	Perils connected to the carriage of goods	82
5.2.2.3	Weaknesses in the ship and similar "internal perils" ..	83
5.2.2.4	Injurious acts by third parties	84
5.2.2.5	Errors and negligence from the master, crew and other helpers	85
5.2.2.6	Negligence by the assured	86
5.2.3	War perils	88
5.2.3.1	Introduction	88
5.2.3.2	The central war risks	90
5.2.3.3	Measures taken by a foreign State power	93
5.2.3.4	"Riots, strikes, lockouts, sabotage, acts of terrorism and the like"	95
5.2.3.5	"Piracy and mutiny"	97
5.2.3.6	"Measures taken by a State power to avert or limit damage"	98
5.2.4	Exclusions	99
5.2.4.1	Overview	99
5.2.4.2	Intervention by State power	100
5.2.4.3	Insolvency	102
5.2.4.4	Release of nuclear energy and similar risks – the RACE II clause	103
5.2.4.5	Ordinary use of the ship and equipment	105
5.3	Losses covered	105
5.3.1	Introduction	105
5.3.2	Insurance on full conditions	106
5.3.3	Insurance on limited terms	107

TABLE OF CONTENTS

5.4	Causation	108
5.4.1	Some starting points	108
5.4.2	The development of the rules on combination of causes	109
5.4.3	Combination of causes; the main rule	111
5.4.3.1	The scope of application for NMIP § 2-13	111
5.4.3.2	The criteria for apportionment	112
5.4.3.3	Special rules concerning RACE II perils	116
5.4.4	Combination of marine perils and war perils	117
5.4.4.1	Overview	117
5.4.4.2	When is a peril the dominant cause	117
5.4.4.3	Losses deemed to be caused entirely by war perils	121
5.4.5	Causation in English marine insurance	122
5.5	The incidence of loss	127
5.5.1	Introduction	127
5.5.2	The main rule, § 2-11 first subparagraph	128
5.5.3	Special rule for unknown damage	129
5.6	Burden of proof	134
5.6.1	Introduction	134
5.6.2	Main rule relating to the burden of proof	135
5.6.3	Loss attributable either to marine or war perils	136
CHAPTER 6 THE DUTIES OF DISCLOSURE AND DUE CARE		137
6.1	Introduction	137
6.2	Duty of disclosure	139
6.2.1	Introduction	139
6.2.2	The scope of the duty of disclosure	141
6.2.3	The time at which the duty of disclosure is in effect	144
6.2.4	Loss of cover due to breach of duty of disclosure	146
6.2.4.1	Introduction	146
6.2.4.2	Fraud	146
6.2.4.3	Negligent and dishonest breach	147
6.2.5	The insurer's right to cancel the contract	148
6.2.6	Common conditions to invoke the rules	149
6.2.6.1	Conditions concerning knowledge and materiality	149
6.2.6.2	Duty of the insurer to give notice	150
6.2.7	The right of the insurer to obtain information from the classification society	150
6.2.8	Who has the duty of disclosure	152
6.3	Alteration of the risk	152
6.3.1	Overview	152
6.3.2	The general regulation	153
6.3.2.1	Material change of risk, the general starting point	153

TABLE OF CONTENTS

6.3.2.2	The special rule concerning change of the manager etc.	154
6.3.2.3	The insurer's right to terminate the insurance	156
6.3.2.4	Freedom from liability	157
6.3.2.5	Cases where the insurer may not invoke alteration of risk	158
6.3.3	The special regulation	159
6.3.3.1	Loss of class	159
6.3.3.2	Trading limits	161
6.3.3.3	Illegal undertakings	163
6.3.3.4	Requisition and seizure	164
6.3.3.5	Removal of the ship to repair yard	165
6.3.3.6	Change of ownership	167
6.4	Safety regulations	168
6.4.1	Introduction	168
6.4.2	The concept of safety regulation	169
6.4.2.1	Introduction	169
6.4.2.2	The purpose of the regulation	169
6.4.2.3	How the regulation can be issued	169
6.4.3	The assured must be responsible for the breach	173
6.4.4	Causation	175
6.4.5	Burden of proof	177
6.4.6	The owner who acts as master or crew	178
6.4.7	Sanctions	178
6.4.8	The solution in English marine insurance	180
6.5	Duties to notify the insurer and to avert or minimise loss	180
6.5.1	Introduction	180
6.5.2	Duty of the assured to notify the insurer of casualties	181
6.5.3	Duty of the assured to avert and minimise the loss	182
6.5.4	Consequences of the insured neglecting his duties	183
6.6	Casualties caused intentionally or negligently by the assured	184
6.6.1	Introduction	184
6.6.2	Intent	185
6.6.3	Gross negligence	186
6.6.4	Circumstances precluding the application of § 3-32 to § 3-34 ..	187
6.6.5	The solution in the English system	188
6.7	Identification	189
6.7.1	Introduction	189
6.7.2	Identification between the person effecting the insurance and his servants	191
6.7.3	Identification between the assured and his servants	191
6.7.3.1	Introduction	191
6.7.3.2	The main rule	192

TABLE OF CONTENTS

6.7.3.3	Identification with captain or crew	195
6.7.4	Identification of the assureds <i>inter se</i>	196
6.7.5	Identification between the assured and the person effecting the insurance	199
CHAPTER 7 CO-INSURANCE		200
7.1	Introduction	200
7.2	Co-insurance of mortgagees	200
7.2.1	Co-insurance is automatic and dependent	200
7.2.2	Extended protection if the insurer is notified	202
7.3	Co-insurance of other third parties	204
7.3.1	Co-insurance is not automatic and dependent	204
7.3.2	Protection during the policy period	206
7.4	Extended cover according to the NMIP § 8-4	206
7.5	The solution in the English system	208
CHAPTER 8 THE INSURER'S LIABILITY FOR COSTS OF MEASURES TO AVERT OR MINIMISE THE LOSS		209
8.1	Introduction	209
8.2	Principles common to general average cover and cover of costs of particular measures	211
8.2.1	Introduction	211
8.2.2	The basic criterion: "a casualty threatens to occur or has occurred"	211
8.2.3	The measures must be taken on account of a peril insured against	213
8.2.4	The measures may be taken by the assured or by a third party ..	213
8.2.5	The measures taken must not necessarily imply a sacrifice ..	214
8.2.6	The measures must be of an extraordinary nature	215
8.2.7	The measures taken must be regarded as reasonable, but do not have to lead to a successful result	215
8.2.8	The costs of measures to be covered	216
8.2.9	The amount to be covered	217
8.3	The hull insurer's cover of general average contributions	218
8.3.1	The main rule	218
8.3.2	"GA absorption clause"	220
8.3.3	General average apportionment where the interests belong to the same person	221
8.3.4	Assumed general average	222
8.3.5	Damage to and loss of the ship	223
8.4	Costs of particular measures taken to avert or minimise loss	224

TABLE OF CONTENTS

CHAPTER 9 TOTAL LOSS	227
9.1 Introduction	227
9.1.1 Total loss as opposed to damage	227
9.1.2 Overview of the different types of total loss	228
9.1.3 The total loss settlement	229
9.2 Total loss	230
9.2.1 Actual total loss	230
9.2.2 Total loss because the ship is not salvaged in time	231
9.3 Condemnation	232
9.3.1 Introduction	232
9.3.2 The material condemnation criteria	232
9.3.2.1 The starting point	232
9.3.2.2 Casualty damage	234
9.3.2.3 “Costs of repairing the ship”	235
9.3.2.4 The assessed insurable value or the value of the ship after repairs	238
9.3.2.5 The 80 % limit	239
9.3.3 The condemnation process	240
9.3.3.1 Request for condemnation	240
9.3.3.2 Who may request condemnation	240
9.3.3.3 When must the request be submitted	241
9.3.3.4 The form and content of the request	242
9.3.3.5 Removal of the ship	243
9.4 Compromised total loss	244
9.5 Presumed total loss	245
 CHAPTER 10 DAMAGE	248
10.1 Introduction	248
10.2 Main rule: Coverage for actual repair costs	249
10.2.1 Overview of the costs	249
10.2.2 The standard of the ship when repaired	249
10.2.3 Deductions for improvements	251
10.2.4 Right and duty to repair	252
10.2.4.1 The assured may always request to repair	252
10.2.4.2 Deferred repairs	253
10.2.4.3 Limitation of the insurers liability when the ship is condemnable	253
10.3 Indemnity for partial repair	253
10.3.1 Introduction	253
10.3.2 Full repair is impossible	254
10.3.3 Full repair is disproportionately expensive	254
10.4 Right to compensation for unrepaired damage	255
10.4.1 The assured’s right to a cash settlement	255

TABLE OF CONTENTS

10.4.2	The assured's right to transfer claims	257
10.5	Excluded losses	258
10.5.1	Introduction	258
10.5.2	Exclusions for inadequate maintenance etc	259
10.5.2.1	Introduction	259
10.5.2.2	The excluded perils	260
10.5.2.3	The part must be in a defective condition	262
10.5.2.4	The distinction between the part that is defective and other parts	263
10.5.2.5	The English solution	263
10.5.3	Exclusion for error in design and faulty material	264
10.5.3.1	Introduction	264
10.5.3.2	Error in design and faulty material	265
10.5.3.3	The condition of damage	266
10.5.3.4	The part shall be approved	267
10.5.3.5	The English solution	267
10.5.4	Losses connected to the ship's ordinary operation	270
10.5.5	Losses connected to ordinary maintenance or replacements ..	270
10.6	The repair	271
10.6.1	Introduction. The relationship between repair time and repair costs	271
10.6.2	Temporary repairs	272
10.6.3	Survey of damage	274
10.6.4	Invitations to tender	274
10.6.5	Choice of repair yard	275
10.6.6	Removal of the ship	276
10.6.7	Costs incurred in expediting repairs	276
10.6.8	Apportionment of common expenses	277
10.7	Deductibles	277
10.7.1	Introduction	277
10.7.2	General deductible	278
10.7.2.1	Introduction	278
10.7.2.2	The general rule	278
10.7.2.3	Deductible for damage caused by heavy weather etc.	280
10.7.2.4	Costs to be compensated without deductible	280
10.7.3	Special deductions	281
10.7.4	Basis for the calculation	282
CHAPTER 11 LIABILITY OF THE ASSURED ARISING FROM COLLISION OR STRIKING		283
11.1	Introduction	283
11.2	The insured event – the main rule	285
11.2.1	Liability for collision or striking of the insured vessel	285

TABLE OF CONTENTS

11.2.2	Liability for a tug used by the ship	288
11.2.3	Sister-ship collisions	289
11.2.4	Costs of measures to avert or minimise the loss	290
11.3	Exceptions to the main rule	291
11.3.1	Liability arising while the ship is engaged in towing	291
11.3.2	Liability for personal injury or loss of life	292
11.3.3	Liability for other loss suffered by passengers or crew on board the insured ship	293
11.3.4	Liability for damage to or loss of cargo and other effects on board the insured ship, or equipment which the ship uses ..	293
11.3.5	Liability to charterers or others who have an interest in the insured ship	294
11.3.6	Liability for pollution damage, etc.	294
11.3.7	Liability for loss caused by cargo or bunkers after grounding or striking against ice	296
11.3.8	Liability for loss caused by the ship's use of certain objects ..	297
11.3.9	Liability for wreck removal, etc.	299
11.3.10	Refund of amounts paid by a third party for loss covered by the exclusions	300
11.4	Limitations of the hull insurer's liability for the assured's collision and striking liability	302
11.4.1	The sum insured	302
11.4.2	The deductible	304
11.5	Cross liabilities	305
11.5.1	The single liability principle is not acceptable in insurance settlements	305
11.5.2	The insurance settlement should be based on the cross liabilities principle	306
11.5.3	The insurance settlement where one or both ships may limit their liability in the external settlement	307
11.5.4	Cross liabilities settlements and the assured's other insurers ...	309
 CHAPTER 12 SETTLEMENT OF CLAIMS		 310
12.1	Duty of the assured to provide particulars and documents, NMIP § 5-1	310
12.2	Payment on account	312
12.2.1	Duty of the insurer to make a payment on account, NMIP § 5-7	312
12.2.2	Payment on account when there is a dispute as to which insurer is liable for the loss, NMIP § 5-8	313
12.3	Settlement of the claim	314
12.3.1	Settlement in stages	314
12.3.2	Costs in connection with settlement of claims, NMIP § 4-5	314

TABLE OF CONTENTS

12.3.3	Costs in connection with measures relating to several interests, NMIP § 4-6	316
12.3.4	Rates of exchange, NMIP § 5-3	317
12.3.5	Interest on the compensation, NMIP § 5-4	317
12.4	Due date and payment	319
12.4.1	Due date, NMIP § 5-6	319
12.4.2	Claims adjustment, NMIP § 5-2	320
12.4.3	Set-off of claims, NMIP § 7-4 sixth subparagraph	320
12.4.4	Disputes concerning the adjustment of the claim, NMIP § 5-5	321
12.5	Liability of the assured to third parties	321
12.5.1	Duties of the assured when a claim for damages covered by the insurance is brought against him, NMIP § 5-9	321
12.5.2	Right of the insurer to take over the handling of the claim, NMIP § 5-10	322
12.5.3	Decisions concerning legal proceedings or appeals, NMIP § 5-11	322
12.5.4	Provision of security, NMIP § 5-12	323
12.6	Claims by the assured for damages against third parties	324
12.6.1	Right of subrogation of the insurer to claims by the assured for damages against third parties, NMIP § 5-13	324
12.6.2	Waiver of claim for damages, NMIP § 5-14	326
12.6.3	Duty of the assured to assist the insurer with information and documents, NMIP § 5-15	327
12.6.4	Duty of the assured to maintain and safeguard the claim, NMIP § 5-16	327
12.6.5	Decisions concerning legal proceedings or appeals, NMIP § 5-17	327
12.7	Right of the insurer to the object insured upon payment of a claim	328
12.7.1	Right of the insurer to take over the object insured, NMIP § 5-19	328
12.7.2	Charges on the object insured, NMIP § 5-20	329
12.7.3	Preservation of the object insured, NMIP § 5-21	330
12.7.4	Right of subrogation of the insurer in respect of damage to the object insured, NMIP § 5-22	331
12.8	Limitation etc.	331
12.8.1	Time-limit for notification, NMIP § 5-23	331
12.8.2	Limitation, NMIP § 5-24	332
CHAPTER 13	SEPARATE INSURANCES AGAINST TOTAL LOSS	334
13.1	The concept of hull- and freight-interest insurance	334
13.2	The scope of cover	336
13.3	Common rules	337