

Hull values and P&I cover, beware of being underinsured

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Nick Taylor and Rupert Banks of Standard Club have written that, while all shipowners make sure that hull insurance is in place to cover physical damage or loss to their ships arising out of accidents or perils of the sea, some owners might not be aware that making sure that the value declared under the policy was kept up to date was vitally important from the perspective of club cover.

They said that a failure to do so could have a significant impact on the extent of recovery where a casualty gives rise to a claim under the club's rules that cover the ship's proportion of general average (rule 3.15) or excess collision liabilities (rule 3.6.4).

Under rule 3.15, cover is given for:

Ship's proportion of general average, special charges or salvage not recoverable under the hull policies by reason of the value of the ship being assessed at a sound value in excess of the insured value under the hull policies.

Under rule 3.6.4, cover is given for:

That part of the member's collision liability which exceeds the sum recoverable under the hull policies solely by reason of such liability exceeding the valuation of the ship in those policies.

The writers noted that both rules were subject to provisos that effectively place the member under an obligation to keep the ship properly insured under their hull policies. Under each rule, the board of the club may, for the purposes of assessing any amount recoverable, determine the 'proper value'

at which the entered ship should have been insured under the hull policies. 'Proper value' means the market value of the ship without commitment.

Where ship's proportion of general average is concerned, if, after consideration, the board decided that the ship was not insured for its proper value and should have been insured at a higher figure, the club would only pay that proportion of ship's general average in excess of what would have been recoverable under the hull policy had the ship had been insured under the policy at the higher figure.

So far as the collision rule is concerned, cover under the hull policy would always be limited to the insured value of the ship. While the club normally would pick up one quarter of the collision liability risk or such other proportion as may be specifically agreed with the managers, the club's cover also would extend to that proportion of collision liability that was not recoverable under the hull policy due to such liability exceeding the insured value of the ship.

However, if the board determined that the ship was not insured for its proper value and should have been insured for a higher figure, the club would only pay that proportion of collision liability that exceeded what would have been recoverable under the hull policy had the ship been insured for that higher figure.

Members might therefore run the risk of suffering a shortfall in recovery under either rules 3.15 or 3.6.4 if their ships were under-insured by not being insured for their proper value.

<https://www.standard-club.com/knowledge-news/hull-values-and-p-i-cover-4155/>