Dissecting E&O for Marine Coverage

The property-casualty insurance we know today has evolved from the days when shippers would spread their cargo among several ships bound for the same destination in order to increase the chance that some of the cargo would arrive and decrease the chance that none of the cargo would arrive. Eventually, ocean marine policies were drafted, underwritten and issued and those have now evolved into a relatively standard set of coverages. However, many insurance agents have limited experience with these coverages. As a result, agents can make mistakes in helping their clients obtain the correct coverage and in understanding the coverage obtained. These mistakes can be quite costly.

First, let's start with the basics. Ocean marine policies can be for commercial vessels or for pleasure craft. Commercial policies can cover the ship itself (hull coverage), the cargo (ocean cargo coverage) and liability to others (protection and indemnity coverage). Writing this coverage is highly specialized, and those who are not trained in this area should associate with a broker specializing in this coverage rather than risking an avoidable error. Oil tankers require their own special cover to comply with the Water Quality Improvement Act.

Yacht insurance is intended to provide coverage for private pleasure boats, including sailboats. Underwriters will typically require that each craft have a condition and value survey performed every so often in order to assess its value and seaworthiness—usually every two or three years. Coverage can include limited hull coverage and full hull coverage which includes perils of the sea and collision, just to mention a few. Coverage can be obtained on an agreed value or actual cash value basis. As is always the case when a total loss will result in an ACV payment rather than a replacement cost (RCV) payment, a letter to the client explaining the coverage is the best defense to an errors and omissions claim.

Both ocean marine and yacht insurance include warranties and limitations such as territorial limitations and specific lay up periods, thus limiting the time and space of the covered risk. Agents must document to their customers any restrictions on coverage as well as the importance of notifying the insurance agent if there are any changes. For example, if a client has a yacht policy with a territorial restriction, but decides to take a one time trip outside that territory, he must first obtain permission from the carrier (which is commonly granted for a small additional premium). Errors and omissions claims arise from denied claims when vessels sink outside the policy's navigational limits or incur damage during the lay up period.

Some warranties are even more specific, limiting the type of activity for which the vessel can be used. For example, a policy might limit a vessel's coverage to "gill net fishing." If the ship were to be damaged while lobster fishing, the carrier can disclaim coverage for violation of the policy conditions. Agents should discuss all policy restrictions with their clients and document the discussion in writing.

While the basics of avoiding an errors and omissions claim are similar with respect to any insurance product, agents should take extra care in selling a product outside their typical offerings. In the case of ocean marine coverage, agents who don't normally deal in this coverage are advised to associate with a more experienced agent or broker to assure procuring the proper coverage for the customer. Agents who dabble in providing highly specialized coverage are more likely to create an errors and omissions shipwreck—better to jettison a few commission dollars and save the vessel that is your agency's clean record. IA

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Improving Your Marine Prospects

Are you familiar with these common ocean marine terms: dunnage, barratry of the master, perils of sea and jettisons?

Dunnage is loose packing material placed in shipping containers to prevent damage to the items being shipped. Barratry of the master is an intentional act by the vessel's master that harms the vessel or its cargo. Perils of the sea are the typical accidents that occur on navigable water, such as heavy weather, stranding and collision with a submerged object. Jettisons are items "thrown overboard" to lighten the load and help the ship make it through difficult conditions.

Most insurance agents don't encounter clients who own a commercial vessel requiring such coverage. However, in today's global economy, agents writing a lot of commercial risks are likely to work with businesses that import and export finished goods or create finished goods by assembling pieces from all over the globe before shipping finished products to market. These shipments are typically insured by ocean cargo coverage. Offering this coverage presents a tremendous opportunity for agencies to service customers and increase agency revenue. Obviously, agents must be trained in the nuances of this coverage, such as the need for an expediting expenses clause to cover the additional cost of a rush shipment necessitated by a cargo loss. Also, agents need to be sure their clients understand the terms and conditions of ocean cargo policies. Again, associating with a specialized brokerage can be a tremendous asset in assuring that all insurable risks are identified, and all the available coverages offered and explained.

—E.M.