



Received: 04-03-2024  
Accepted: 14-04-2024

## International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

### Some Basic Contents of Hull Insurance and Civil Liability Insurance

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#### Abstract

As a shield for enterprises in production and business activities, marine insurance in general and ship hull insurance in particular was born and developed to meet the needs of ensuring and stabilizing production and business of shipping carriers when risks occur, and losses to the ship.

Some basic contents of Hull Insurance and Shipowner Civil Liability include: Hull insurance subjects; Coverage; Insured value; Sum insured; Hull premiums; Claim settlement and loss compensation.

**Keywords:** Marine Insurance, Hull Insurance, Civil Liability Insurance

#### 1. Introduction

Transport by water is one of the early modes of transport. When science and technology were not yet developed to a high level when people were not capable of building modern ships with large tonnage and speed like those used to transport goods in international trade as today, The advantages of the ocean have also been taken advantage of by humans to carry out the transportation of goods and passengers between countries around the world by steam engines using gas such as coal, firewood... Only since the advent of the capitalist mode of production, international trade relations between countries around the world have been expanded, leading to an increase in the volume of goods circulating between countries and inevitably, the demand for transporting goods and passengers has increased, the mode of transport by water has developed rapidly. This has contributed significantly to the economic development of the country in the period of international economic integration. However, because the operation of ships depends a lot on climatic and weather conditions, in addition to the slow movement speed of ships, it is difficult for water transport to avoid unexpected risks and losses, especially sea risks such as storms, etc tsunamis, reef, collision, sinking... Therefore, the problem for shipping traders is how to overcome the unfortunate damage to their ships to ensure stability in the production and business process.

#### 2. Theoretical basis

##### 2.1 Types of insurance policies

According to the Law on Insurance Business (2022) <sup>[1]</sup>, Types of insurance policies include "Life insurance contracts; Health insurance policy; Property insurance contracts; Damage insurance contracts; Liability insurance contracts" (Article 5). Marine insurance is a type of property insurance and civil liability insurance belongs to the type of Liability Insurance. Marine insurance contracts shall comply with the provisions of the Maritime Code; contents not specified in the Maritime Code shall comply with the provisions of this Law. Contents related to insurance contracts not specified in this Law shall comply with the provisions of the Civil Code.

##### 2.2 Contents of the insurance contract

The Law on Insurance Business also regulates the content of insurance contracts. Specifically, the insurance contract must contain the following principal contents: "The policyholder, the insured, the beneficiary (if any), the insurer or a branch of a foreign non-life insurance enterprise; Subjects of insurance; The sum insured or the value of the insured property or the limitation of insurance liability; Coverage or benefits; rules, conditions, terms of insurance; Rights and obligations of insurers, branches of foreign non-life insurance enterprises and policyholders; Insurance term, effective time of insurance contract; Insurance premium level, method of premium payment; Methods of compensation and payment of insurance; Dispute

resolution method." (Article 17).

### 2.3 Building, designing, developing, and supplying insurance products

Professional activities in the construction, design, development, and supply of insurance products are specified in Article 87 of the Law on Insurance Business. Accordingly, "Insurance enterprises and branches of foreign non-life insurance enterprises are allowed to take the initiative and take responsibility for building, designing and developing insurance products". Second, "Rules, terms and fee schedules developed by insurance enterprises and branches of foreign non-life insurance enterprises must meet the following requirements: Comply with the law, conform to Vietnamese practices, moral standards, culture and customs and practices; The language used in insurance rules and terms must be accurate, the expression is simple and easy to understand, professional terms should be clearly defined in insurance rules and terms; Clearly and transparently show the insured interests, insured objects, scope and insured risks, interests and obligations of the policyholder and the insured, responsibilities of insurance enterprises, branches of foreign non-life insurance enterprises, exclusion clauses, methods of payment of insurance premiums, dispute resolution provisions; Insurance premiums must be built based on statistics, corresponding to conditions, insurance responsibilities and solvency guarantees of insurance enterprises and branches of foreign non-life insurance enterprises." Third, "Insurers and branches of foreign non-life insurance enterprises must register and obtain approval from the Ministry of Finance for methods and basis for calculating insurance premiums of insurance products in the profession of life insurance, health insurance, motor insurance, etc except motor vehicle owners' civil liability insurance." Finally, "Insurers and branches of foreign non-life insurance enterprises may actively provide insurance products in the following forms: Direct; through an insurance agent or insurance broker; through tenders; through electronic transactions; other forms in accordance with the provisions of law.

## 3. Basic contents of Hull Insurance

### 3.1 Hull insurance subjects

According to the Law on Insurance Business, the insured subjects of property insurance contracts are property under the provisions of the Civil Code, including: "Property means valuable things, money, papers, and property rights; Assets include real estate and movable property. Immovable and movable property may be existing assets and assets formed in the future" (Article 105).

In the Vietnam Maritime Code (2015), there are regulations on marine insurance subjects including: "Subjects of insurance 1. The subject of marine insurance is any material benefit that can be cashed out in connection with maritime activities. 2. Marine insurance subjects include a) Ships, ships under construction, goods or other assets threatened by maritime risks; (b) the price of freight services, ship charter, purchase rental, estimated interest on goods, commissions, loans, security advances, expenses endangered when the ship or ship is under construction, goods or other assets threatened by maritime risks; (c) civil liability arising from maritime risks" (article 304).

Hull means all ships that are seaworthy under international and national laws, including hull, ships, common seafaring

equipment, and business services (excluding personal items and belongings). Usually in hull insurance, the hull value accounts for about 40%, the value of machinery accounts for about 40%, and the value of equipment accounts for about 20%. The shipowner's insurance policy declaration must state: "Name of the ship; Port of Registration of Ships; Ship nationality; Year and place of shipbuilding; Ship level; DWT > > NT". At the same time, the ship owner must also meet three conditions: "The ship is seaworthiness; the ship's nationality does not change during the insurance period; the ship's itinerary must be legal."

### 3.2 Coverage

In hull insurance, the risks incurred generally include the main group of risks in maritime: Sinking, stranding, explosion, and collision (collision includes: Ship collision, ship collision and structure built at sea or in port, collision with floating or movable objects...). In addition, the insured risk also includes ships missing due to all reasons, damaged ships due to the fault of the crew, due to conspiracy, etc. Risks excluded in insurance include risks of war, strikes, risks of intentionality, fault of the insured, and risks of breach of insurance conditions. Ship owners can purchase additional insurance terms and pay additional fees such as risk in the case of ship deviation, change of itinerary, or delay of the journey.

In hull insurance, insurers often apply insurance policies to increase the shipowner's liability to prevent and limit losses. The applicable insurance policies are the First risk insurance regime, whereby the amount of compensation cannot exceed the sum insured. Specifically: For partial losses: Indemnity insurance is exactly equal to the value of the loss and does not exceed the sum insured; for total loss: Indemnity insurance is equal to the sum insured; with liability and insurance limited to the sum insured. Indemnity insurance: Three types of exemptions apply in hull insurance: General exemption: Applied to all types of loss except total loss and partial loss due to 4 main risks. This exemption is calculated separately for each loss. Under the ITC 1983 regulations, this exemption is set at 15% of the sum insured; exemption due to side risks, hiding, and carelessness. According to the ITC 1983, this exemption rate is 10% of the value of the loss after deducting the general exemption; Exemption from a ship's violation of the non-notification of loss: This is a rule that penalizes the shipowner for learning of the loss to the ship without notifying the insurer to take measures to remedy the loss. According to ITC 1983 regulations, this exemption is 15% of total losses.

### 3.3 Insured value

In the Vietnam Maritime Code (2015), there is a provision on Insurance value in article 311 "Insurance value is the actual value of the insured object and is determined as follows:

The insured value of a ship is the total value of the vessel at the time of the commencement of insurance. This value also includes the value of the ship's machinery, equipment, and spare parts plus the entire insurance premium. The value of the ship may also include advance wages for seafarers and the cost of preparing the voyage agreed upon in the contract; Hull insurance value is the actual value of the ship at the beginning of insurance. The hull insurance value is calculated based on the actual value of the ship's hull, machinery, and other equipment, including the value

recorded on the fixed asset books; and prices for buying and selling ships on the market; It may also include advance wages for seafarers and expenses for voyage preparation.

If the insurer participates in insurance where the insured value is less than the actual value of the ship, the insurer shall receive one of the following two forms: Marine risk insurance in the form of undervalue insurance and insurance only under the condition of total loss coverage.

The insured value stated in the insurance certificate is the highest value that the insurer receives compensation for each loss.

### 3.4 Sum insured

In the Vietnam Maritime Code (2015), there are provisions on the Insured Amount in Article 311. Specifically: "When entering into an insurance contract, the insured must declare the amount to be insured for the insured. The sum insured is the amount that the insurer must pay to the insured when an insurance event occurs.

In case the sum insured stated in the insurance contract is lower than the insured value, the insurer shall be responsible for compensation for losses in proportion between the sum insured and the insured value, including other expenses covered by the insurance.

In case the sum insured stated in the insurance policy is greater than the insured value, the amount exceeding the insured value shall not be recognized."

Hull insurance is a type of property insurance, so the sum insured is determined depending on the relationship of the insurance contract, it is a certain amount representing part or all of the insurance value. The sum insured is the basis for determining the amount of insurance compensation for each loss, which is the limit of insurance compensation. In addition, besides buying insurance for the ship itself, it is also possible to participate in insurance for freight and operating costs.

Freight insurance is insurance for the part of the freight that the shipowner must return to the shipper because the shipowner cannot bring the cargo to the berth. According to ITC regulations, the insurance premium for the portion of freight that ship owners can participate in is at the highest equal to 25% of the hull insurance amount.

Operating expense insurance is insurance for all kinds of management expenses, and business interests... to ensure that the highest participation is equal to 25% of the hull insurance amount. So the sum insured in hull insurance includes the amount of hull insurance, freight, and management charges.

### 3.5 Hull insurance premium

Hull insurance premium: An insurance premium is the amount paid by the insurer to the insured based on the sum insured and the premium rate applicable to that ship. Insurance premiums are applied for each type of ship, ship age, ship group, ship operation route, and level of synchronization of equipment... Insurance premiums may vary depending on the annual loss situation of the fleet.

The premium includes Compensation fees for total loss; and compensation fees for part losses including temporary, official, and pending repair costs; Surcharges include management costs and costs to prevent and limit losses...

So, Hull Insurance Fee = Total Loss Compensation Fee + Parts Loss Compensation Fee + Other Surcharge.

The full loss compensation fee is calculated as the sum insured multiplied by the fee rate. The fee rate is determined by the age, stature, and equipment of the vessel. The older the train, the poorer the equipment, and the higher the charge rate.

The compensation fee for part loss depends on the status of maintenance, repair, route and range of the vessel, the condition of previous years of loss of the vessel...

Other fees depend on the insurer's operating expenses.

Hull insurance premiums must be paid as soon as the insurance policy takes effect unless otherwise agreed. If the vessel is decommissioned continuously for 30 days or more, after paying the premium, the insurer shall reimburse the insured for such downtime. Depending on the policy, the reimbursement rate is different.

Deadline for payment of hull insurance premium: The premium may be paid in one lump sum or divided into several installments provided that it is true within the effective term of the policy, with ships insured according to the term: For ships insured with a term of one year: Filed in four periods of three months, each period pays 1/4 of the yearly fee no later than 15/1, 10/4, 10/7, 10/10; For ships insured with terms from six months to less than one year: Submitted in two installments on the first 10 days of each period; For ships insured with a term of less than six months or by voyage: Submit in full once within 10 days from the date of issuance of the insurance certificate; In case a ship is at risk while the insurance period remains, but the premium payment due date has not yet been reached, the entire remaining premium must be paid within 15 days from the date of loss.

### 3.6 Settlement of claims and compensation for losses

According to the Maritime Code (2015), Article 287. Principles for determining fault and compensation for losses in collision accidents:

A ship at fault for causing a collision is a ship that causes a collision due to action or negligence in equipping, controlling, and managing the ship; in observing rules on preventing collisions at sea and regulations on ensuring maritime safety; due to failure to perform necessary professional practices.

The vessel at fault for causing the collision accident shall pay compensation for the loss of ship, persons, and property in connection with the collision. Where two or more ships are jointly at fault for a collision accident, liability shall be allocated according to the degree of fault of each party; if the degree of fault is equal or when the degree of fault of each party is not specified, the liability for compensation is equally distributed among all parties.

Without a clear determination of fault, no vessel shall be deemed to have been at fault for the collision accident.

In the event of compensation for life, injury, or other harm to human health, the ships at fault shall be jointly liable. Ships that have paid compensation above their liability are entitled to reimburse the ships concerned for such excess amount.

Military ships are exempt from liability for compensation only if they are at fault for causing a collision accident while on duty in the declared military exercise zone and non-maritime activity zone. However, the captain must still perform the obligations specified in Clauses 1 and 2, Article 286 of this Code if actual conditions allow.

Based on the provisions of Clauses 1, 2, 3, 4, and 5 of this Article, the parties involved in the collision accident are entitled to agree on their own to determine the degree of fault and liability for compensation for losses occurring for such collision accident; if no agreement can be reached, it has the right to initiate a lawsuit at Arbitration or a competent Court.

#### **4. Basic contents of shipowner civil liability insurance**

According to the Law on Insurance Business (2022) <sup>[1]</sup>, Article 57. Subject matter of liability insurance contracts. Accordingly, "The insured object of a liability insurance policy is the civil liability of the insured to a third person following the provisions of law."

##### **4.1 The nature of shipowners' civil liability insurance**

In the course of business, the shipowner or charterer shall be liable for losses resulting from the use of the ship in operations that cause damage to others. Under international law, a shipowner's civil liability (shipowner's compensation liability) includes liability to indemnify third persons, liability for the cargo transported and the persons on board. When the shipowner takes out hull insurance under the conditions of insurance for TNDS caused by a collision accident, the hull insurance is responsible for compensating 3/4 of that TNDS. Thus the remaining shipowners suffer. So in the early 18th century shipowners banded together and formed "Protection clubs." This association was created to insure 1/4 of the collision liability that the hull insurance did not undertake. At the same time, the association also covers 100% of the liability for death and injury for officers, passengers, and crew.

##### **4.2 Organizational structure of the P&I club**

The P&I Association is an organization with legal status. Each association consists of many members who are shipowners from countries around the world.

The highest authority of the council is the Council of Directors. This council decided define rules, policies, and settlement of compensation for members.

Supporting bodies: The Board of Directors may be organized in two forms: The Board of Directors and the Board of Directors.

The board of directors is elected by the Board of Directors and the chairman of the trade is the shipowner with the largest fleet in the association. Therefore, dealing with daily affairs is not equal and objective, and often tends to advocate for ship owners with larger fleets.

The management board consists of the chairman and several vice presidents. The Board of Directors hires management with working capacity. The way to work every day is fairer and more reasonable.

##### **4.3 Management of the P&I club**

P&I Insurance Club operates based on balancing revenues and expenditures. The fee calculation method of the association is an accounting method between the association and its members on a mutual basis to balance the revenues and expenditures of the association. The main sources of revenue of the association are premiums and investment interest. Premium is paid annually by members. Investment interest includes all gains from investments from the idle capital of the association. These revenues are intended to cover expenses during the year. Expenditures include Expenses for compensation for losses of members, expenses

for compensation to other members of the International group, reinsurance costs for losses exceeding the retention of the association and group, and administrative expenses. In addition to the above expenditures, the association also takes into account the loss of the price of the fee currency. Due to the complex nature of the risk that the association receives insurance, during the professional year, some losses have to wait a few years for a court or arbitration ruling. Only when all expenditures are paid in the professional year will members have data to allocate the costs to be contributed by members that year?

The management of the P&I Insurance Association is based on ship owners through the board, or elected board of directors. The Board of Directors will decide on policies on insurance coverage, compensation, and premium contributions.

The Board of Directors assigns responsibility and delegates authority within a certain limit to the Board of Directors or management to handle day-to-day tasks or damages of less than \$100,000. In addition, the Board of Directors also uses the network of representatives in other countries to ensure information, and changes in legislation... of countries to assist the Board of Directors in timely handling of the law.

The P&I association's activities are based on the principle of mutual balance of income and expenditure, which means that all expenses such as compensation for losses, management expenses, and support expenses for members of the association are contributed by members of the association.

The Association also assists members in litigation and dispute matters and provides new information and professional staff training.

In principle, the association does not allow ship owners to pledge or transfer P&I-insured ships to others without the consent of the association. The validity of the policy will terminate when the member dies, becomes bankrupt, or becomes insane (according to specific regulations).

##### **4.4 Join the P&I club and the coverage period**

###### *Joining the Association and related issues*

Those wishing to join the association must apply for membership at certain intervals and provide all required information and technical characteristics. If the ship is insured, the information and specifications are provided in the application as part of the insurance policy. The information provided must be truthful to the ability of the member to understand and reasonably diligent. The Association may deny any membership application to any member without indicating the reason whether the applicant is already a member of the association or not. Upon acceptance of the application, the member will be issued a Certification of Enter. This certificate specifies the name of the member and their rights in respect of the ship to be joined, the date and date of commencement of insurance, and the terms and conditions of acceptance of insurance. If the P&I shipowner has more than one fleet entry, the liability of any member to both the fleet and the association will have the same treatment rights as all ships of the fleet joined by the same member.

###### *Changes and supplements to insurance conditions*

If no notice changes, the coverage conditions of the next fiscal year will remain the same as in the current fiscal year. However, insurance conditions can be amended at any time and take effect early next year. When the association wants

to change its conditions for the next financial year, it must notify its members that by 12 noon (GMT) on February 20, the policy will continue under the terms re-agreed, otherwise, the insurance will end by the end of the current financial year.

#### *End of insurance*

When members wish to discontinue coverage for the next financial year, they must notify them that they must notify them within 30 days by 12 noon (GMT) on February 20, and that coverage will end at the end of the current financial year.

If, after the notice of termination of the insurance policy has been issued, the association and its members agree on new conditions by 12 noon on February 20, the notice of termination of insurance is canceled and the ship continues to be insured for the new financial year under the new terms. Unless accepted by the association or the contract is concluded following law, the member may not withdraw the insurance policy at any time.

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