**Chapter 10: International Insurance**

TRUE/FALSE

 1. One of the most complex areas of international logistics is international insurance.

ANS: T DIF: Easy REF: page 356

 2. Modern shipping methods mean that container cargo is rarely damaged by water.

ANS: F DIF: Easy REF: page 362

 3. It is rare for cargo to fall overboard from ships.

ANS: F DIF: Easy REF: page 363

 4. At the time a ship is stranded, its cargo usually suffers heavy damage.

ANS: F DIF: Moderate REF: page 369

 5. Most piracy occurs near Northwest Asia.

ANS: F DIF: Moderate REF: page 372

 6. The concept of general average is exclusively used in marine insurance.

ANS: T DIF: Easy REF: page 371

 7. Air cargo can be damaged during flight because cargo pilots do not maneuver or fly as gently as passenger pilots do.

ANS: T DIF: Easy REF: page 380

 8. If an exporter in a developing country sells to an importer in a developed country on a CIF basis, the responsibility transfers from exporter to importer once the goods are loaded. If there is then a loss, the exporter may suffer a cash flow problem while filing the insurance claim.

ANS: F DIF: Hard REF: page 382

 9. The three ways companies can manage risk are through risk retention, risk amalgamation, and through a mixed approach.

ANS: F DIF: Easy REF: page 383

 10. Hull insurance does not cover the owner’s liability toward the cargo owners in the case of a general average.

ANS: F DIF: Hard REF: page 395

 11. A P&I club is a mutual form of insurance.

ANS: T DIF: Moderate REF: page 396

 12. The Institute Marine Cargo Clauses Coverage A, B, and C are governed by British law.

ANS: T DIF: Moderate REF: page 388

 13. It is possible to find insurance for improper packing.

ANS: F DIF: Moderate REF: page 387

 14. While it is difficult to obtain, some insurers will write policies covering losses from nuclear war.

ANS: F DIF: Easy REF: page 388

 15. British “All Risks” policies and American “All Risks” policies are different from each other.

ANS: T DIF: Moderate REF: page 390

 16. For Institute Marine Cargo Clauses Coverage B, losses due to bad weather are not covered.

ANS: T DIF: Hard REF: page 390

 17. A “With Average” policy does not cover any losses from loading and unloading of the vessel.

ANS: F DIF: Hard REF: page 390

 18. It is not possible for a shipper to insure its cargo against war damages.

ANS: F DIF: Moderate REF: page 392

 19. Warehouse-to-Warehouse coverage is an extension to the traditional All Risks, With Average, and Free of Particular Average policies. It is an integral part of the Institute Marine Cargo Clause policies for Coverages A, B, and C, for which it is called “Transit” clause.

ANS: T DIF: Hard REF: page 393

 20. Lloyd’s of London is the oldest insurance company in the history of shipping.

ANS: F DIF: Moderate REF: page 401

 21. All marine insurance policies carry a general average clause.

ANS: T DIF: Moderate REF: page 390

 22. Ordinary leakage is of more concern in air transit than in ocean transit.

ANS: F DIF: Moderate REF: page 397

 23. Since there is no problem with inherent vice in air transport, it is not listed as an exclusion in air freight insurance policies.

ANS: F DIF: Moderate REF: page 397

 24. The problem of “flags of convenience” in ocean shipping is also a problem in air transit.

ANS: F DIF: Moderate REF: page 397

 25. The standards for airfreight packing are much less stringent than for an ocean shipment.

ANS: T DIF: Moderate REF: psge 397

 26. Most air cargo policies are not included in the open cargo policy of a firm.

ANS: F DIF: Moderate REF: page 397

 27. The correct calculation of an insurance premium relies upon the determination of the expected monetary value of claims (their probability multiplied by their expected costs) multiplied by the number of policyholders. Over time, the law of averages—arithmetic averages—allows an insurance company to be profitable.

ANS: F DIF: Hard REF: page 401

 28. Lloyd’s of London acts as a market through which unusual risks are insured.

ANS: T DIF: Easy REF: page 401

 29. Lloyd’s of London originally began in a coffee shop.

ANS: T DIF: Easy REF: page 401

 30. Most dangerous cargo can only travel by ocean, not by air.

ANS: T DIF: Easy REF: page 380

MULTIPLE CHOICE

 1. A typical container will be handled \_\_\_\_\_ times in each of the ports of departure and destination.

|  |  |  |  |
| --- | --- | --- | --- |
| a. | four to six | d. | two to three |
| b. | fifteen to twenty | e. | one to two hundred |
| c. | fifty to sixty |

ANS: A

In each of the ports of departure and destination, a container will be handled four to six times.

DIF: Moderate REF: page 360

 2. According to John Waite, chief surveyor of the Salvage Association, the biggest hazard(s) for container ships is/are

|  |  |  |  |
| --- | --- | --- | --- |
| a. | foreign exchange exposure. | d. | theft. |
| b. | risk retention. | e. | fire. |
| c. | leakage. |

ANS: E

The correct answer is fire.

DIF: Moderate REF: page 367

 3. Most of the ships that sink each year

|  |  |  |  |
| --- | --- | --- | --- |
| a. | are older ships. | d. | are older, bulk ships flying third-world countries' flags. |
| b. | are bulk ships. | e. | There is no correlation between the age, type and flag of a ship and its risk of sinking. |
| c. | are ships flying third world countries’ flags. |

ANS: D

All of these characteristics apply to sinking ships.

DIF: Easy REF: page 368

 4. Which of the following is a marine insurance company?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Lloyd’s | d. | *Inchmaree* |
| b. | Cigna | e. | Liberty Mutual |
| c. | the International Underwriting Association |

ANS: B

While Lloyd’s and the International Underwriting Association are involved in forms of insurance, only Cigna is a marine insurance company. The *Inchmaree* is a ship name from a court case. Liberty Mutual is a property and casualty insurance company.

DIF: Moderate REF: page 393

 5. The part of a trip during which cargo is at most risk for theft is

|  |  |  |  |
| --- | --- | --- | --- |
| a. | the ocean voyage. | d. | while being loaded and unloaded. |
| b. | the inland leg. | e. | while clearing Customs. |
| c. | on the quay of the dock. |

ANS: B

On the ocean voyage, the cargo is relatively safe, except for piracy which is not as frequent as theft on inland trips. On the quay, the cargo is readily observed and is safer than on the inland trip. Loading and Customs clearance present few risks.

DIF: Moderate REF: page 359

 6. A ship valued at $1,337,500 is carrying a cargo of iron ore valued at $125,000, and a cargo of coal valued at $100,000. The ship is stranded and the captain jettisons what is later determined to be $12,500 worth of iron ore. The stranded ship is towed to port, receives a bill from the tug company of $56,250 and is determined to have suffered $71,875 worth of damage to the ship. The captain declares a general average. How much liability will the company shipping the coal have?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | $7,750 | d. | $140,625 |
| b. | $9,000  | e. | None of the above |
| c. | $11,250 |

ANS: B

Lost ore value plus tug fees plus ship damage

 Divided by

Ship value plus ore value plus coal value

$12,500 + 56,250 + 71,875 = .09, the ratio of losses to combined

$1,337,500 + 125,000 + 100,000 value of cargo and ship

The company shipping the coal has a liability of $100,000 ×. 09 or $9,000.

DIF: Hard REF: page 371

 7. An exporter in a developing country sells under CIF terms to an importer in a developed country. The exporter provides the minimum required insurance coverage. If there is a loss, the importer would

|  |  |  |  |
| --- | --- | --- | --- |
| a. | have to file a claim with an insurer in the developing country. | d. | have to file a claim with the International Insurance Commission. |
| b. | be subject to foreign exchange devaluation due to the length of time of claim processing. | e. | be obligated to file a claim with his own insurance company, that would then file with the exporter’s insurance company. |
| c. | be required under the CIF terms to pay the invoice despite the delay in receiving the claim. |

ANS: A

Responsibility for the shipment transfers once the merchandise is loaded onboard the ship, but the exporter provides minimum cover insurance and if there is a loss, the importer has to file a claim with the insurer of the developing country or an insurer not chosen by the importer. CIF terms are silent on payment of invoice (which is determined by the method of payment), and devaluation may or may not happen. There is no such IIC, or obligation to involve the importer’s insurance company.

DIF: Hard REF: page 382

 8. Marine cargo insurance can be purchased from

|  |  |  |  |
| --- | --- | --- | --- |
| a. | a barratry. | d. | insurance adjuster. |
| b. | MSC Carla. | e. | freight forwarder. |
| c. | COGSA. |

ANS: E

Marine cargo insurance can be purchased through an insurance agent or a freight forwarder.

DIF: Hard REF: page 386

 9. Premiums in an open ocean cargo policy

|  |  |  |  |
| --- | --- | --- | --- |
| a. | are based upon the value of shipments made under the policy. | d. | are determined by the quality of the goods exported |
| b. | are based on the number of *pro forma* invoices that a company has outstanding. | e. | are adjusted in function of the risk presented by the importer  |
| c. | mean the shipper can make one shipment under the insurance policy. |

ANS: A

Premiumsare not linked in any way to the number of *pro forma* invoices issued by a company; the shipper can make *more than one* shipment under the policy. Premiums are based upon the value of the shipments under an open ocean cargo policy, and not on their quality, or the characteristics of the importer.

DIF: Moderate REF: page 386

 10. A special cargo policy

|  |  |  |  |
| --- | --- | --- | --- |
| a. | is an insurance policy that covers only one shipment. | d. | covers all risks associated with a series of shipments. |
| b. | allows a firm to purchase coverage that covers all its shipments. | e. | means that the policy covers a shipment of dangerous goods. |
| c. | forces a company to purchase insurance for each shipment. |

ANS: A

A special cargo policy is contracted for only one shipment at a time.

DIF: Moderate REF: page 386

 11. A letter of credit usually requires

|  |  |  |  |
| --- | --- | --- | --- |
| a. | an open ocean cargo policy. | d. | proof of hull insurance. |
| b. | a special cargo policy. | e. | an Incoterms® Rule that includes insurance  |
| c. | a Certificate of Insurance. |

ANS: C

A letter of credit usually requires a Certificate of Insurance. An open ocean cargo policy and a special cargo policy are not directly relevant in this case.

DIF: Moderate REF: page 386

 12. The liability of a single P&I club is limited to

|  |  |  |  |
| --- | --- | --- | --- |
| a. | cargoes of crude oil. | d. | the wealth of its member companies |
| b. | $7 million. | e. | nothing. A P&I Club has unlimited liability |
| c. | an international fund. |

ANS: B

P&I club liability is not limited to crude oil, but it limited to U.S. $7 million. Although the 13 P&I clubs form an alliance and mutually insure each other, they do not have unlimited liability.

DIF: Moderate REF: page 396

 13. Coverage A of the Institute Marine Cargo Clauses requires a special endorsement to cover

|  |  |  |  |
| --- | --- | --- | --- |
| a. | an unseaworthy vessel. | d. | nuclear war. |
| b. | improper packing. | e. | ordinary leakage. |
| c. | strikes and other civil disturbances. |

ANS: C

Unseaworthy vessels and improper packing are never insurable. Coverage against strikes and other civil disturbances can be in this case with a special endorsement.

DIF: Moderate REF: page page 387

 14. Coverage A of the Institute Marine Cargo Clauses is the maximum coverage an exporter or importer would normally need to purchase

|  |  |  |  |
| --- | --- | --- | --- |
| a. | for most trade lanes of the world. | d. | all these options apply to Coverage A. |
| b. | for shipments from one developed country to another. | e. | for most manufactured goods. |
| c. | for shipments that stay away from political hot spots of the world. |

ANS: D

All of these options apply in a Coverage A.

DIF: Moderate REF: page 388

 15. Goods shipped “under deck”

|  |  |  |  |
| --- | --- | --- | --- |
| a. | face more perils than goods shipped “on deck.” | d. | cannot be covered by Institute Cargo Clauses policies.  |
| b. | cannot be insured by a United States All Risk policy. | e. | cannot obtain a Certificate of Insurance. |
| c. | are stowed inside the ship. |

ANS: C

Goods shipped “under deck” are stowed inside the ship, and face *fewer* perils than goods shipped “on deck” and *can be* insured by U.S. All Risk policies and Institute Cargo Clauses policies.

DIF: Easy REF: page 390

 16. Institute for Marine Cargo Clauses Coverage B

|  |  |  |  |
| --- | --- | --- | --- |
| a. | is a “named-perils” policy. | d. | covers goods that are damaged by improper packing. |
| b. | includes coverage for goods washed overboard. | e. | covers goods in the case of inherent vice. |
| c. | includes coverage for water damage, and total losses during loading and unloading. |

ANS: A

Institute for Marine Cargo Clauses Coverage B is a named-perils policy and includes coverage for the perils named in the policy.

DIF: Moderate REF: page 389

 17. Institute Marine Cargo Clauses Coverage C

|  |  |  |  |
| --- | --- | --- | --- |
| a. | is required by Incoterms CIF. | d. | is the best type of policy that can be purchased |
| b. | is appropriate for most goods. | e. | is recommended by the Institute Cargo Clauses’ writers |
| c. | is adequate for most containerized goods. |

ANS: A

Coverage C is the minimum coverage required by Incoterms CIF; it is *inappropriate* for most goods; it is *generally insufficient* for most containerized goods.

DIF: Moderate REF: page 389

 18. Under an American Conditions Free of Particular Average policy,

|  |  |  |  |
| --- | --- | --- | --- |
| a. | partial losses are covered if they happen on the same voyage as a fire. | d. | it would be enough to cover the minimum insurance requirements of a CIF or CIP shipment. |
| b. | there is excellent coverage for containerized or break-bulk cargo. | e. | None of the options apply to an American Conditions free-of-particular-average policy. |
| c. | partial losses are not covered if they result directly from a fire. |

ANS: E

Partial losses are covered if they happen on the same voyage as a fire applies only to an *English* Conditions Free of Particular Average policy. In an American Conditions Free of Particular Average policy, there is poor coverage for containerized or break-bulk cargo, partial losses *are* covered if they result *directly* from a fire, and it would *not* be enough to cover the minimum insurance requirements of a CIF or CIP shipment.

DIF: Hard REF: page 392

 19. S.R. & C. C. coverage

|  |  |  |  |
| --- | --- | --- | --- |
| a. | includes only direct physical damage to the insured goods. | d. | includes direct physical damage to the goods and financial losses due to delays. |
| b. | includes incidental damage caused by delay to market. | e. | includes direct physical damage to the goods and any incidental loss due to delays. |
| c. | covers financial losses that accompany a delay in the sale of cargo. |

ANS: A

S. R. & C. C. coverage only covers direct physical damage to the goods. It does not include incidental damage caused by delay in the sale of the cargo, nor financial losses dues to delays.

DIF: Moderate REF: page 392

 20. A “Sue and Labor” clause

|  |  |  |  |
| --- | --- | --- | --- |
| a. | directs the shipper to act in the best interest of the insurance company when a loss occurs. | d. | covers losses due to boiler/engine explosions. |
| b. | is the same as an *Inchmaree* clause. | e. | covers losses stemming from a grounding of the ship. |
| c. | specifies that the insurer will reimburse the shipper for goods that have been abandoned after a stranding or a sinking, as long as the costs of recovering the goods and making them marketable is greater than their value. |

ANS: A

A “Sue and Labor” clause directs the insured to protect the cargo when a loss occurs, from further damage, in order to keep the loss to a minimum. An *Inchmaree* clause has to do with damage caused by a burst boiler. A Constructive Total Loss Coverage clause specifies that the insurer will reimburse the shipper for goods that have been abandoned after a stranding or a sinking, as long as the costs of recovering the goods and making them marketable is greater than their value.

DIF: Hard REF: page 395

 21. Insurance coverage designed to fill the gap between what an importer would like to have covered under its open cargo policy and what is covered under its supplier’s CIF coverage is called

|  |  |  |  |
| --- | --- | --- | --- |
| a. | a Difference in Conditions coverage. | d. | an *Inchmaree* clause. |
| b. | a Constructive Total Loss Coverage. | e. | None of the above |
| c. | a Sue and Labor clause. |

ANS: A

A Difference in Conditions coverage is used to fully cover a shipment when only a CIF is required.

DIF: Moderate REF: page 394

 22. Airfreight insurance policies

|  |  |  |  |
| --- | --- | --- | --- |
| a. | are more complicated than ocean marine policies. | d. | are written as "Free of Particular Average" policies. |
| b. | are written as “All Risks” policies. | e. | are written as "With Average" policies. |
| c. | have none of the traditional exclusions of ocean marine policies. |

ANS: B

Airfreight insurance policies are *less* complicated than ocean marine cargo policies and have the same traditional exclusions. They are written as “All Risks” policies with the traditional exclusions found in ocean marine policies.

DIF: Moderate REF: page 396

 23. At Lloyd’s, individuals assuming (insuring) risks on their personal fortunes are called

|  |  |  |  |
| --- | --- | --- | --- |
| a. | agents. | d. | speculators. |
| b. | barristers. | e. | esquires |
| c. | Bespoke Names. |

ANS: C

Bespoke Names are Lloyd’s of London vernacular for individuals who have unlimited liability for insurance risks on their personal assets.

DIF: Moderate REF: page 402

 24. At Lloyd’s, the individuals assuming (insuring) risks are grouped together in

|  |  |  |  |
| --- | --- | --- | --- |
| a. | associations. | d. | Baileys. |
| b. | underwriting instruments. | e. | syndicates. |
| c. | agencies. |

ANS: E

At Lloyd’s, the individuals (Corporate Members and Bespoke Names) assuming (insuring) risks are grouped together in syndicates.

DIF: Hard REF: page 402

 25. At Lloyd’s, the individuals assuming (insuring) risks have

|  |  |  |  |
| --- | --- | --- | --- |
| a. | unlimited liability. | d. | unlimited liability only in the United Kingdom. |
| b. | limited liability. | e. | unlimited liability in the European Union. |
| c. | limited liability only in the United Kingdom. |

ANS: A

Bespoke Names assuming risks have unlimited liability for those risks on their personal assets.

DIF: Moderate REF: page 402

 26. A major financial problem occurred for Lloyd’s of London due to its coverage of

|  |  |  |  |
| --- | --- | --- | --- |
| a. | oil tankers. | d. | asbestos. |
| b. | Carlos Santana’s hands. | e. | Lionel Messi’s legs |
| c. | the Russian embassy in Washington. |

ANS: D

Lloyd’s of London’s syndicates covered the risk of asbestos product liability, which was so extensive, many Bespoke Names were brought to personal bankruptcy.

DIF: Easy REF: page 402

 27. More companies are selling their goods on an “open-account” basis because

|  |  |  |  |
| --- | --- | --- | --- |
| a. | countries are providing more export subsidies. | d. |  countries have implemented quotas for exporters. |
| b. | the nationalization of Compagnie Francaise d’Assurance pour le Commerce Exterieur has allowed more policies to be issued. | e. | it is possible to purchase credit insurance to cover the risk of non-payment. |
| c. | the World Trade Organization is now encouraging the practice. |

ANS: E

Competitive pressures are pushing firms to sell on an open-account basis, as customers try to acquire the best possible payment alternatives. Countries are providing *fewer* export subsidies, while the nationalization of Compagnie Francaise d’Assurance pour le Commerce Exterieur” is not relevant, and the World Trade Organization has no interest in methods of payment.

DIF: Hard REF: page 403

 28. Condensation damage is covered by All Risks policy and

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Coverage A of the Institute Marine Cargo Clauses. | d. | with-average policies |
| b. | Coverage B of the Institute Marine Cargo Clauses. | e. | free-of-particular average policies |
| c. | Coverage C of the Institute Marine Cargo Clauses. |

ANS: A

Coverage A, along with All Risks, are the only coverages that apply to condensation damage.

DIF: Hard REF: page 390

 29. “Warehouse-to-Warehouse” coverage is an extension to the traditional

|  |  |  |  |
| --- | --- | --- | --- |
| a. | All Risks policy. | d. | All policies can be be extended to include this coverage. |
| b. | With Average policy. | e. | one of the policies but Coverage A of the Institute Marine Cargo Clauses can be extended to include this coverage. |
| c. | Free of Particular Average policy. |

ANS: D

The “Warehouse-to-Warehouse” coverage is an extension to the traditional All Risks, With Average, and Free of Particular Average Policies.

DIF: Hard REF: page 394

COMPLETION

 1. Even in good weather, cargo is subject to ship’s movement in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ directions at once.

ANS: six

DIF: Easy REF: page 360

 2. Traditionally, shippers of higher-value cargo will ask that the cargo be carried “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ deck.”

ANS: under

DIF: Moderate REF: page 362

 3. To avoid loss of the ship or other cargo, a captain is allowed to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ cargo in order to make the vessel lighter or to protect against cargo that might come loose.

ANS: jettison

DIF: Easy REF: page 367

 4. Some cargoes, such as athletic shoes, cellular telephones, and computer equipment are especially subject to the possibility of theft because they are easy to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: resell

DIF: Moderate REF: page 359

 5. Most cargo sent by air has \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ value.

ANS: high/higher

DIF: Easy REF: page 380

 6. An insurance contract is legally binding only if the insured has a(n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in the subject matter of the insurance.

ANS: interest

DIF: Moderate REF: page 381

 7. Hull insurance rates are dependent upon the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of a ship, the way it is maintained, and the equipment it has on board.

ANS: sea-worthiness

DIF: Moderate REF: page 396

 8. Protection and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a form of insurance for a ship owner against liability to other parties when a ship sinks or is damaged.

ANS: indemnity

DIF: Moderate REF: page 396

 9. Some products have a natural propensity to be affected a certain way over time. For instance, steel will show surface rust when exposed to air and moisture, agricultural products will foster insects and rodents. This is called inherent \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: vice

DIF: Moderate REF: page 388

 10. It is impossible to get insurance for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ leakage.

ANS: ordinary

DIF: Moderate REF: page 388

 11. Cargo of exceptional dimensions such as large pieces of equipment which would not fit in a traditional container or would need special arrangements with the shipping line is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ cargo.

ANS: project

DIF: Moderate REF: page 403

 12. An act of disobedience or willful misconduct by the captain or the crew of a ship that causes damage to the ship or cargo is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: barratry

DIF: Moderate REF: page 357

 13. The chance of a loss that can be accurately calculated, because ample empirical data is available or because a good mathematical model has been developed, is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ risk.

ANS: objective

DIF: Moderate REF: page 358

 14. The problem of an insurance policy requiring goods to be shipped “under deck” can be solved by requesting that the insurance company cover the goods based upon the Shipper’s Letter of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: Instruction

DIF: Moderate REF: page 391