

# Ship Insolvency & Financial Default – Impact on Cargo Insurance News



Ship Insolvency & Financial Default – Cargo Shipments

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## Introduction

Shipping is almost entirely dependent on international trade and the movement of goods between trade partners.

Widespread economic downturn or reduced production will eventually impact shipping and result in loss of volume, reduced services and business stress.

The swift and dramatic deterioration in current world economic conditions is beginning to influence trade. Shipping services will respond with reduced services, cancelled orders and vessel lay-ups.

Some shipowners will not survive the depressed times.

This commentary gives a brief overview of the likely impact on cargo owners and the expected response of Cargo coverage.

## Disclaimer

**This newsletter is for information purposes only and is not legal advice.**

Many of our trading partners are in recession and it is tipped that we will shortly follow suit. The situation is being mirrored around the world as local economies contract and international trade shipments diminish. The speed of economic downturn is adding further to the current difficulties of the capital intensive shipping industry. Some smaller shipping companies have failed and more casualties are considered a real possibility.

### **An Insolvency Event**

If a shipping company fails, it is likely that the vessel(s) will be arrested and further prosecution of the voyage suspended. Cargo owners will be advised and they will be obliged to remove goods and arrange any onforwarding to their own cost.

### **Coverage**

The standard cover under the Institute Cargo Clauses (A, B & C) Excludes - *"loss damage or expense arising from insolvency or financial default of the owners managers charterers or operators of the vessel"* (Exclusion 4.6). Most local insurers have adopted a revised Insolvency Exclusion Clause similar to that found in the Institute Commodity Trades Clauses and the new Cargo Clauses (1.1.09) in order to provide a broader level of cover. Example – *"In no case shall this insurance cover loss, damage or expense caused by insolvency or financial default of the owners, managers, charterers or operators of the vessel*

*or aircraft where, at the time of loading of the insured goods on board the vessel or aircraft, the Insured is aware, or in the ordinary course of business should be aware, that such insolvency or financial default will prevent the normal prosecution of the voyage. This Clause shall not apply where the insurance has been assigned to the party claiming hereunder who has bought or agreed to buy the insured goods in good faith under a binding contract."*

The amended clause includes:

1. a privity requirement - knowledge of the situation on the part of the Insured.
2. the exclusion will not apply to an assigned party under a binding contract.

Where the Insured can show full compliance with the provisions (1 & 2) of the amended clause, subsequent loss, damage or expense (including reasonable forwarding costs) may be recoverable.

Notwithstanding the clause amendments, caution should be exercised by cargo owners when choosing shipping lines and suppliers. Uninsured exposures need to be identified and satisfactorily risk managed.

Contact us if you would like additional information.

**The Team at Vero Marine and Aviation**