

**LIVE ARTICLES ON MARINE
INSURANCE: A SERIES OF
ARTICLES REPRINTED FROM THE
WEEKLY UNDERWRITER, 1917-
1918**

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ON
MARINE INSURANCE

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The Weekly Underwriter

1917-1918

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FOREWORD.

This volume, like the Live Articles series on fire and liability insurance, is made up of articles reprinted from *THE WEEKLY UNDERWRITER*, which for the past year has contained at least one article on marine insurance each issue. The articles are by men who speak with authority, whose word is the last word, each in his respective line.

The articles have met with a growing appreciation and with a general commendation that is distinctly encouraging, and it is hoped that in this their collected form, by fulfilling a real demand, they will meet with a real success.

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THE OLDEST FORM OF INDEMNITY.

By **J. B. Levison.**

*President Fireman's Fund of California
An Address Delivered Before the Board of Fire Underwriters
of the Pacific*

As many of you doubtless know, marine insurance is the very oldest form, and, in fact, the only ancient form of indemnity. History tells us that as far back as 800 B.C. the Rhodians had something of the nature of marine insurance, and they are generally credited with having been responsible for certain features, at all events, of marine insurance as we know it to-day.

About the twelfth century, when the commercial activity in the Mediterranean began to show itself, marine insurance played quite an important part in the trading between individuals. As a matter of fact, the whole development of marine insurance is allied, naturally, very closely to the birth and development of commerce and trade. From 1200 to 1600 A.D. was, it might be said, the constructive period and about the thirteenth century the Lombards introduced marine insurance into London; in fact, the present policy known as "Lloyd's policy" bears a very striking resemblance to a Florentine statute describing a form of policy which was dated about 1500.

In those days in London, the so-called "coffee house" occupied rather a unique position in the commercial world, being a sort of meeting place for merchants, shipowners and masters. From these coffee houses subsequently developed the Shipping Exchange or Bourse over the entire continent. One of the best known coffee houses in London at that time was kept by a man by the name of Lloyd, and was known as Lloyd's coffee house.

Shippers, merchants and captains used to meet in this place, which during the last half of the seventeenth century became a very well known rendezvous for all persons connected with shipping. Lists were kept, giving the particulars of vessels, their age, construction, ownership, etc., as well as a record of their voyages. Finally a plan of mutual insurance was adopted by which, for an agreed compensation, the individuals would guarantee each other against loss. Lloyd appears to have been an enterprising man and at last, probably by way of publicity and as an attraction for his coffee house, started in 1696 the publication of a weekly shipping and commercial paper called

Lloyd's News, which was a forerunner of *Lloyd's List*, started in 1726 and now the most widely known shipping paper in the world. From Lloyd's coffee house also emanated the lists giving the particulars of the construction and condition of vessels, which doubtless was the beginning of *Lloyd's Register*—the acknowledged authority on the classification of vessels the world over.

This leads me to say a word about Lloyd's underwriters, who also came out of Lloyd's coffee house, in that certain patrons of the coffee house "underwrote" policies of insurance, as it was then called, and to which I have already referred, decided to start an association, so that they might have a place for the transaction of their particular business exclusively, and from this has grown the Lloyds of to-day.

It would probably surprise some of you to know that the word "Lloyd's" has nothing to do with matters maritime, strictly speaking. We naturally have got into the habit of thinking so from the fact that the names of so many different kinds of concerns connected with the sea, such as steamship companies, vessel registers, etc., use the word "Lloyd's." It has all come from the original Lloyd's coffee house.

heart of the city of London. In this room several hundred writers and their method of doing business. Lloyd's room is a

I will take a moment to tell you something of Lloyd's under- large room on the second floor of the Royal Exchange in the underwriters sit at their desks from 10.00 in the morning until 4.00 in the afternoon, considering proposals for insurance presented to them by hundreds of brokers and their clerks. In this room is written every class of insurance known to the business world, and while originally Lloyd's underwriters wrote only marine insurance, to-day, as I have just said, they write anything and everything of whatever character. The result of this, as can be readily understood, is that the institution is an exceedingly attractive one for brokers and, as a matter of course, the volume of business done by Lloyd's underwriters is tremendous.

To come back now to marine insurance.

Probably, in view of the fact that I am speaking to a body of men employed generally in the fire insurance business, it might be well for me to say a few words by way of comparison. Fire insurance and marine insurance have absolutely no relation whatever to each other. It is merely a coincidence that certain companies happen to be doing both classes of business. There is absolutely no similarity whatever, nor connection between the two—in fact, at many points marine insurance is as different from fire insurance as it is from life insurance or any other form of insurance.

For example, the policy generally used by marine under-

writers is one which has come down to us from the fifteenth or sixteenth century and clauses are inserted to meet the particular requirements of the business in hand. In fire insurance the form is laid down by the State, and changed to meet the views of State insurance departments and individuals, rather than the insuring public. In marine insurance tariffs are of the greatest rarity, rates being fixed by individual underwriters; in fire insurance it is the custom the world over to write according to tariff almost altogether. In marine insurance the policy is practically always a valued policy; in fire insurance, to even suggest a valued policy is to throw the underwriter almost into a state of panic.

In marine insurance it is not at all an unusual thing for an underwriter to relieve himself of liability by re-insuring his entire line on any given risk; in fire insurance this is practically unknown, and considered unethical, if nothing worse.

A marine policy once written can not be cancelled, except, of course, by mutual consent. Every fire policy contains a clause providing for cancellation by either party.

Marine insurance is world wide and cannot be controlled locally in any respect. Fire insurance is strictly local and can be controlled accordingly.

The first stock companies for the transaction of marine insurance were organized and chartered in England in 1720 and in America in 1792. Up to the time of the present European war there were less than a dozen American companies doing marine insurance business. To-day, as a result of the war and the anticipated development of the American merchant marine, practically every American fire insurance company of any importance has taken up marine insurance also.

It is not necessary for me to say to an organization such as yours that without marine insurance there could be no commerce. Marine insurance makes it possible for a merchant with a limited capital to do a comparatively large business.

As to the scope of marine insurance, I hardly know where to start, it is so broad, and so different from anything that the average fire underwriter, with no definite knowledge of the situation, imagines.

For example, a very large business is that of insuring cargoes on vessels carrying a refrigerating plant against the breakdown of the plant and the consequent spoiling of the cargo. Another is the practical guaranteeing of profits by insuring against the safe arrival of the vessel. If time permitted I could give you many similar interesting illustrations of the kind of risks marine underwriters are expected to take.

In the old days of sailing vessels, before the advent of steam, the character of the business was entirely different from the present time. To-day, with the commerce of the world carried

on by steamers and all the ports of the world connected by cable, the business is of a much simpler character.

A feature of the marine business which I should probably say a word about at this particular time is that of war risk insurance, which is a subject of common interest and discussion. The ordinary marine insurance policy does not cover what is popularly known as "war risks." In other words, it specifically excepts any losses due to the seizure, detention or sinking on the part of a belligerent, and in order to have this risk covered, it is necessary to add a special clause for which an additional premium is charged. During the last three and a half years many companies have written a large business with very satisfactory results, for the reason that while losses by the submarines in European waters have been quite heavy, the losses throughout the rest of the world have been comparatively light, notwithstanding which fact merchants and bankers have protected their shipments, wherever they might be, by war risk cover.

There are a few technical expressions to which I might refer as doubtless many of you have heard them and been mystified by them, to a greater or less degree, and I will ask you to bear with me a few minutes longer so that I may very briefly touch upon them.

The first is "general average." General average is simply a sacrifice made or an expense incurred for the general benefit. Take a very simple illustration: A captain finds his vessel dangerously close to the rocks and employs a tugboat to tow him clear of danger. The value of the cargo is \$100,000 and the value of the vessel is \$100,000 and the tugboat's bill is \$2,000. Under these circumstances the vessel will pay half and the cargo will pay half of the bill. Of course, you understand that I have given you a very primitive illustration, shorn of all complications and technicalities, of which there are naturally many, even in a case as simple as this one.

TECHNICAL EXPRESSIONS.

"Particular average" is, roughly speaking, a technical expression for "partial loss." "Hull" is the body of the vessel itself. "Freight money" is the compensation paid the owner by the cargo for its carriage. "Average statement" is nothing more nor less than a "proof of loss," as it is called in the fire business.

One very important feature of the marine business is the implied warranty of seaworthiness. There are present, in all contracts of insurance, two classes of warranties—expressed and implied. The expressed warranty is the warranty contained in the policy itself; the implied warranty is one that, as the expression indicates, is understood between both parties.