

# BASIC INSURING CONDITIONS

## FREE OF PARTICULAR AVERAGE (FPA)

Free of Particular Average is an English term which really means Free from Partial Loss. ("Particular Average" means partial loss). Therefore, this clause basically says that partial losses are not covered. However, almost all policies have been broadened to include payment for some partial losses. By ocean: generally partial losses are covered if they are directly caused by STRANDING, SINKING, BURNING or COLLISION OF THE CARRYING VESSEL. Or if by plane: generally if losses are directly caused by FIRE or AIRCRAFT, LIGHTNING, CRASH OR COLLISION.

With FPA, total losses covered are for hazards common to "the seas." Total losses caused from the following are covered by PA conditions:

1. Violent, turbulent action of the forces of nature operating in and about the sea.
2. Theft and/or misappropriation of the ship or cargo by the captain or seamen.

Often PA conditions can be broadened by adding coverage for THEFT and NONDELIVERY of the entire shipping unit. The types of goods likely to be insured PA are as follows:

- Used Merchandise
- On Deck Bills of Lading
- Bagged Goods
- Bulk Goods

## GENERAL AVERAGE

If the master of the ship voluntarily sacrifices cargo, equipment or funds to save the voyage, then all parties involved (cargo owner/ship owner) are required to make a proportional contribution to cover the costs incurred. A good example is if a ship begins to list (tilt) dangerously to one side, the captain may decide to sacrifice the cargo on that side of the ship in order to even the load. Everyone, even the cargo owners whose goods arrived safely, would have to contribute to the loss. A General Average would be declared by the master, and the goods would not be released until the cargo owners have tendered an "Average Guarantee" from the insurance company or a cash bond. General Average coverage can be purchased separately but it is already included in the PA, with Average and All Risk conditions. Other examples of a potential General Average declaration are:

1. Repairs of the ship's machinery while in an unscheduled port.
2. Towing charges for transit to a port for repair.

## SHORE CLAUSE

In addition to covering the basic hazards of the sea and air, most basic cargo policies include this clause, which will pay partial or total losses occurring on land if caused by:

- Collision of truck or train
- Derailment of train
- Accident of carrying conveyance
- Fire of conveyance
- Lightning
- Sprinkler leakage
- Cyclones, Hurricane & Earthquakes
- Floods
- Collapse of Docks or Wharfs

## **WITH AVERAGE (WA)**

The "With Average" Term overrides PA and expand PA to include partial losses.

Basically you can say that:

With AVERAGE = PA + Partial losses from heavy weather & seawater damage

## **ALL RISKS**

Of the three basic insurance coverages offered to shippers, "PA", "WA" and "All Risks". All Risks is by far the most common and broadest coverage. Most new merchandise which has been properly packed for export and is not usually susceptible to loss will be insured All Risk. When insured under these terms, coverage is extended to include loss due to physical loss or damage from any external cause. But do not be misled by the term "ALL RISK", because not everything is covered.

The following is a partial list of the common exclusions to All Risk terms:

1. Improper packing.

Proper Packing:

- can withstand frequent handling, jarring & jostling
- can withstand extremes of weather & temperature
- discourages or complicates pilferage and tampering.

2. Abandonment of cargo.

3. Rejection by Customs or other governmental authorities.

4. Failure to pay or collect account.

5. Inherent vice (infestation, failure of product to perform intended functions and latent defects).

6. Loss caused by delay.

7. Loss of use and/or market. (Seasonal merchandise such as calendars & holiday cards).

8. Nuclear.

9. Losses in excess of cargo policy limit.

10. Losses at port city more than fifteen days after discharge.

11. Losses inland more than thirty days after discharge.

12. Losses in South America after sixty days.

13. Ocean-going barge movements, unless specifically endorsed.

14. Goods subject to an on-deck bill of lading. Always ask the Steamship Company for an underdeck bill of lading.

15. Losses due to Strikes, Riots & Civil Commotion.

16. War.