

The Role and Importance of Ocean Freight and Marine Insurance

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ABSTRACT

The paper sheds light on the theoretical basis of marine insurance, hull insurance, and protection and indemnity insurance. Sea transport helps reduce environmental pollution, can transport goods, and uses the natural transportation system, so marine insurance accounts for 90% of international freight. This shows that sea transport plays a significant role in the economy and politics of countries, regions, and the world. Despite its many advantages, sea transport is highly dependent on natural conditions, low shipping speed, and can cause pollution due to oil spills. Therefore, participating in Hull Insurance and Protection and indemnity insurance of Marine Insurance is essential.

Keywords: Marine insurance; Hull insurance; Protection and indemnity insurance; Importance

I. INTRODUCTION

Marine insurance consists of three types: cargo insurance (CI), hull insurance (HI), and Protection and indemnity insurance (P&I). Hull insurance is a type of insurance designed to protect cargo ships or commercial vessels from risks and damages during operation. This is an important part of the marine insurance sector. Hull insurance ensures that the ship and its components, including the hull, machinery, electrical systems, operating systems, and other equipment, are protected from risks such as accidents, fires, shipwrecks, damage, or other malfunctions that may occur during operation. Protection and indemnity insurance is a type of insurance designed to protect ship owners from financial claims that may arise as a result of incidents that cause damage to third parties during ship operations. When a vessel is engaged in the transportation of goods or carriers, undesirable accidents may occur resulting in consequences on the property or health of others or causing damage to the property of others. In this case, the shipowner is liable to compensate for the damage caused. Protection and indemnity insurance is designed to ensure that the shipowner can face

financial claims arising from causing damage to third parties. This insurance policy will compensate for the financial part that the shipowner must pay in the event of an incident. Marine insurance may cover compensation for property damage caused by accidents, fires, shipwrecks, or other mishaps. This includes damage to cargo, ships, equipment, and other components related to maritime operations. Insurance can also protect shipowners from civil liability arising from incidents that cause damage to third parties, including injury to property, health, and death. The insurance benefit will ensure that the shipowner has the ability to face financial claims arising from causing damage to others.

II. THEORETICAL BASIS

2.1. Insurance

Insurance has existed and developed for a while but so far there is no unified concept. Many researchers have come up with the concept based on different economic senses. According to Kessler (1994), "Insurance is the contribution of the majority to the unhappiness of the few" (p.394). In the Maritime Insurance Textbook, Cuong & Phuong (n.d) cited the concept of insurance from a legal perspective proposed by Prof. Hermard, "Insurance is a business through which an insured party accepts to pay an amount of money (insurance premiums or insurance contributions) to himself or herself or another third person in the school; If there is a risk, they are entitled to compensation from another party, the insurer, who is responsible for the entire risk, and compensates for damages following the Law on Statistics" (p.5). From the perspective of business administrators, insurance companies say that "Insurance is a mechanism, according to which a person, a business or an organization transfers risks to an insurance company, that company will compensate the insured for losses covered by insurance and divide the value of damages between all the insured" (Cuong & Phuong, n.d, p.5). The Wikipedia dictionary also defines "Insurance as a means of protection from financial loss, where, in

exchange for a fee, one party agrees to compensate the other in the event of certain loss, damage, or injury. This is a form of risk management, mainly used to protect against the risk of accidental or uncertain loss" (para.1). Author Cuong (n.d) wrote in Vietnam and the world maritime news document, "Insurance is the commitment of the insurer to the insured to compensate the insured for losses, damages and damages of the insured due to the agreed risks, provided that the policyholder has purchased insurance for that person and paid an amount called premium" (p.6). Thus, we can understand, that insurance is a form of protection to which participants will be entitled to subsidies when insurance events occur. Through a contribution to the insured object (People, civil liability, property) when a risk occurs, the insurance will pay a part. This subsidy is provided by an organization (Fee Recipient) responsible for paying compensation for damage to the customer in accordance with the specific provisions in the insurance contract.

2.2. Marine insurance

According to The Mariner's Guide to Marine Insurance, "Marine insurance covers the physical loss or damage of ships, cargo, harbors, and any means of transportation to which assets are transferred, acquired, or held between origin and final destination" (Anderson, 1999). According to Vietnam's 2015 Maritime Code, "Maritime insurance means insurance operations related to the operation of ships, people or goods transported at sea or operations that insure risks at sea, on land and rivers related to sea voyages" (Law No. 95/2015/QH13). Marine insurance consists of three types: cargo insurance by sea, hull insurance, and Protection and indemnity insurance (Tuan, 2005, p.6). Insurance of import and export goods transported by sea: the subject of insurance is import and export goods transported at sea and related costs; Hull insurance: the subject of insurance is the hull, machinery, and equipment on board and reasonable expenses (costs along the voyage, the cost of advance salaries for seafarers, part of the responsibility that the shipowner must bear in case two ships collide) - Protection and indemnity insurance: insurance for damages arising from the shipowner's liability in the process of ownership, business or operation of the ship to others.

2.3. Hull insurance

According to Vietnam's 2015 Maritime Code, "Ships are vehicles operating on or under

water, including ships, boats and other vehicles with or without motors" and article 13 clearly states "Ships are mobile floating vehicles specialized for operating at sea". Ships specified in this Code do not include military ships, official ships, fishing vessels, inland waterway vehicles, submarines, submersibles, seaplanes, floating storages, mobile platforms, or floating docks (Law No. 95/2015/QH13). In addition, the Ministry of Transport issued Circular No. 19/2013/TT-BGTVT stipulating the application of international rules on the prevention of collisions of ships at sea (the International Rules on the Prevention of Collisions of Ships at Sea of 1972 were amended, supplemented in 1981, 1987, 1989, 1993, 2001 and 2007) also states that "Ships" includes vehicles used or which can be used as means of transport or surface transport, including vessels without water occupancy, winged hovercraft and seaplanes" (article 3). Thus, ocean liners are not limited in size. It serves the purpose of carriage of ordinary cargo, specialized cargo (minerals), and passengers. It can be motorboats, sailboats, barges, container ships, rescue ships ... with different machines and engines.

According to the first insurance company present in Vietnam, Hull insurance is defined as "Hull insurance (Hull): Insurance for losses to the hull, machinery, and equipment of ships caused by sea/river hazards, or due to unexpected accidents such as wrecking, fire, stranding, collision, boiler explosion, mechanical shaft breakage, ... (para.1). In the study "Hull insurance in Vietnam – Current situation and development solutions", author Tuan (2005) said that "Hull insurance is insurance for risks of losses, damage to the hull, machinery, and equipment on board, some costs that ship owners have to spend in the process of ship operation business and part of the shipowner's responsibility in the process of ship operation collision accident" (P.6). Thía et al. (2023) define "Hull insurance as insurance for physical losses and damage to the hull, machinery, and equipment on board, and for the freight and operating expenses of the ship" (p.10). Thus, hull insurance is an insurance policy for maritime risks to hulls, shells, machinery, and equipment of ships against maritime losses under insurance liability due to collisions such as shipwrecks, fires, explosions, collisions, broken mechanical shafts ... may occur during operation.

2.4. Protection and indemnity insurance

The Law on Insurance Business No. 08/2022/QH15 stipulates the insurance subjects of liability insurance contracts as follows: "The

insured object of a liability insurance contract is the insured's civil liability to a third person as prescribed by law" (Article 57). "Civil liability" in an insurance contract is more narrowly understood as the obligation to compensate for damage incurred to a 3rd party due to the occurrence of an insurance event, whereby the insurer must pay the insured the sum insured as agreed upon in the insurance contract.

In insurance documents compiled by maritime organizations such as "The Mariner's Guide to Marine Insurance, Marine Cargo Insurance, Marine War Risks", "Protection and indemnity insurance is often referred to as P&I (Protection and indemnity insurance), which is a form of general marine insurance provided by the P&I club" (Anderson, 1999). While a marine insurance company provides "hull and machinery" insurance for ship owners and cargo insurance for shippers, the P&I club provides coverage for open risks that traditional insurers don't want to cover. Typical P&I insurance covers the carrier's third-party risk for damage caused to goods during transit (Dunt, 2009); risks of war (Michael, 1994); and the risk of environmental damage such as oil spills and pollution. As such, Protection and indemnity insurance is a type of insurance designed to protect shipowners from financial claims that may arise as a result of incidents that cause damage to third parties during ship operations.

III. THE NECESSITY OF HULL INSURANCE AND PROTECTION AND INDEMNITY INSURANCE

3.1. The importance of sea freight

Sea transport is a form of cargo transportation, in the process of using sea vehicles and infrastructure. Commonly used means of transportation will be ships, boats, and cargo loading and unloading vehicles. Economically, politically, or socially, sea transport is always important. Author Vy (2024) states that "Sea transport is the most popular mode of transport in the world, accounting for more than 90% of international freight volume" (para.1).

Advantages of sea freight

Reduce environmental pollution. Compared to road and air transport, the discharge of marine transport vehicles is very low. This contributes to improvement and significant support in the process of reducing environmental pollution.

Sea freight can serve to transport all types of goods. Except for items prohibited from carriage in any form, sea transport can carry all items. Each

item will be classified into groups and forms of transportation, this makes it easier to transship. The advancement of science and technology makes shipping a great leap forward in capability. It is no longer confined to conventional cargo regulations, goods transported today are diverse in types.

Shipping routes are mostly natural routes of communication (except for canals). The transport route is more comfortable and open than road transport. Sea shipping helps to make the most of natural resources. Today's international freight services have taken advantage of the inherent potential of sea locations and seaports. The shipping routes on the sea are all-natural transportation routes, without much effort in construction, maintenance, or repair. The exploitation and use of sea transport help bring benefits to many sides, contributing to improving the efficiency of trade and transportation.

The carrying capacity of sea transport is not limited to other forms of transportation. The outstanding advantage is the ability to transport heavy loads, very large volumes compared to road or air transport: these barges have a terrible carrying capacity. Blue Marlin carried a 60,000-ton Thunder Horse oil rig from Opko, South Korea, to Corpus, USA in 2014. No other type of transport can transport such a large volume of goods as this form of transport. With large ships transporting huge volumes of cargo, creating advantages for the development of sea transport. Transportation by road and air usually carries only a small volume of cargo.

The cost of sea freight is low. The form of sea transport has advantages and helps save transportation costs, so it is used by the vast majority of businesses and companies. The reason is that this form does not incur too many road, registration, or aviation costs too large. From there, it helps businesses save costs and increase profits to the maximum.

Disadvantages of sea freight

Sea transport is highly dependent on natural conditions. When encountering strong winds, large waves will affect the voyage and transit time.

The speed of the train is still low, and the increase in the speed of the vessel is limited. Goods cannot be transported at high speed because the speed of ships is very limited, most ships in the world have quite slow speeds, so it takes a lot of time, which is disadvantageous for goods that need to be transported quickly or packages that need long-term storage conditions. Therefore, it is

necessary to equip industrial shelves for cold storage in containers to preserve goods when moving for a long time.

Sea water pollution: due to ship accidents, damaged ships, oil spills, or due to the awareness of shippers, the marine environment can be affected.

Shipping cannot reach the place: due to the large size of the ships, it is only possible to transport goods to the port and then use the road to bring the goods to consumers.

The importance of sea freight

Sea transport is inseparable from international trade. In today's open and integrated commodity economy, sea transport is probably the right way to move all goods. Whether it is cross-country or domestic transportation, this form always works. This type of transport increasingly plays a key role in Vietnam's economy. The trade and trade with countries and territories since the introduction of the type of shipping has been more developed. Thanks to sea freight, the business market has been significantly expanded. Moreover, it also promotes the birth of many new industries and brings many job opportunities to workers.

Create conditions for economic exchanges with countries and regions around the world. In the field of foreign affairs, shipping contributes to strengthening friendly cooperation between countries. It is an important solution for businesses, especially the supply of raw materials, fuel, and essential items. Sea transport plays a significant role in the circulation and distribution of goods and bridges international trade. When a country wants to transport goods to the sea area of another country, it must obtain its acceptance. This promotes economic exchanges between countries to create conditions for easy circulation of goods and economic development, thereby improving the beneficial relations between many parties.

Shipping promotes the development of international trade. The history of the development of the insurance industry has proven that the sea is a bridge for international trade. This type of transportation helps to open up markets for trading and exchanging goods between countries around the world, not only domestic trade but also customer companies can operate abroad. At the same time, customer companies can also increase their sourcing from all over the world to localities quickly. This contributes to changing the rotation of goods between countries and regions. In addition, shipping contributes to changes in the structure of

goods, and market structure in international trade and acts as a balance of international payments.

3.2. Maritime tragedies in history

Before assessing the need for Hull Insurance and Shipholder Civil Liability, let us review the catastrophic accidents recorded in maritime history. The first is the famous accident in the early 20th century of the Titanic. At nearly midnight on April 14, 1912, the Titanic crashed into an iceberg and sank around 2:40 a.m. the next morning, killing 1,517 people. Previously, experts called the Titanic an "unsinkable ship" because it possessed a thick iron shell and was the achievement of the most modern maritime technology at that time. However, the ship sank on its first voyage, departing from Queenstown, Ireland to New York, USA. The accident was one of the most serious maritime disasters of all time. In the late 20th century, specifically in 1987, more than 4,000 people were killed when a Philippine passenger ship traveling from Catbalogan, Philippines to Manila via the Tablas Strait collided with oil tankers in 1987. This is the maritime tragedy that causes the most deaths in peacetime. In the 21st Century, in 2008, Typhoon Fengshen sank the Philippine ship Princess of the Stars near the Sibuyan Island archipelago in the South China Sea, leaving more than 800 people dead or missing in the tragedy. In 2009, in the Makassar Strait, about 11 km west of the island of Sulawesi. 232 of the more than 260 passengers and crew members on board the Teratai Prima ferry died due to overloading and insufficient rescue equipment. In 2014, the Sewol carrying 476 people from Incheon to Jeju capsized and sank in waters off Byungpoong Island, leaving 304 dead and missing. According to a report by the European Maritime Safety Agency (EMSA), "in 2022, around 2,510 maritime accidents and incidents were reported in the world. The total number of maritime accidents and incidents reported between 2014 and 2022 was 23,814, with an annual average of 2,646" (citing the Vietnam Captain's Club, 2023). In Vietnam, maritime accidents decreased but the number of particularly serious accidents remained high. Specifically, the total number of deaths is 45 people, of which, in 2016: 5 people, in 2017: 12 people, in 2018: 4 people, in 2019: 14 people, in 2020: 10 people and in 2021: 6 people) (quoted by Traffic Newspaper, 2022). Most recently, in early 2024, maritime history also recorded two collision accidents and political tensions. In early March, the cargo ship True Confidence, while transiting the Gulf of Aden, was attacked by Houthi forces,

killing 3 sailors (including one Vietnamese). This incident prompted the International Maritime Organization to issue a warning that international trade would not be possible without shipping, but that shipping would not be possible if the safety of seafarers was not guaranteed. At the end of March 2024, the container ship Dali (a vessel about 300 m long, about 48 m wide, weighing 95,000 tons, and can carry up to 130,000 tons of cargo) in the early morning of March 26 stalled and crashed into the Francis Scott Key Bridge in Baltimore, Maryland, collapsing the spans and causing 8 people and some vehicles to fall into the river, disrupting maritime and road traffic, with losses estimated at \$15 million per day.

3.3. Necessity

In the process of trading, exploiting, managing, and owning ships, ship owners may have to bear a lot of risks. Ships have large volumes and long-term operations at sea, so they are easily affected by unfavorable conditions. Sources of risk due to natural disasters (typhoons, tsunamis, earthquakes), unexpected accidents at sea (hitting reefs, deviation), socio-political tensions (piracy, wars, strikes, riots, rebellions), and technical factors related to the operation of the ship (Boiler rupture, engine shaft failure, control system failure). Natural and technical sources of risk occur almost without any rules, which are difficult to recognize and predict in advance to avoid. These risks can lead to enormous losses for, passengers, cargo, and ship owners. On the other hand, ships are increasingly equipped with modern equipment, and the hull value is increasing, which leads to huge financial risks that ship owners cannot overcome. Once the value of the ship was only hundreds of thousands of dollars, today the value of the ship is hundreds of millions of dollars. The shipowner cannot deal with the consequences on his own if the vessel suffers a large loss, especially a total loss. In the course of doing business or operating a ship, the shipowner may be civilly liable to others for colliding with another ship, polluting the environment, or because the cargo on board is damaged, the crew has an accident or the smuggling captain commits malicious acts resulting in losses to the shipowner. In addition, in Vietnam, civil liability insurance is compulsory and regulated in the Vietnam Maritime Code 2015. Civil liability insurance will help shipowners: Prevent maritime accidents and occupational diseases, "Shipowners are responsible for purchasing accident insurance, Protection, and indemnity insurance and participating in

compulsory insurance as prescribed for seafarers during their work on ships"; Ensuring maritime safety, maritime security, maritime labor, and environmental protection "Ships specialized for transporting petroleum, petroleum products or other dangerous goods are required to have civil liability insurance of shipowners for environmental pollution when operating in port waters and waters of Vietnam"; Fulfillment of obligations and rights of carriers «The carrier is obliged to purchase the carrier's civil liability insurance for passengers" (Article 71, 105,203). Thus, the damage to property and people due to risks occurring during the voyage, whether large or small, damages not only the economy of society but also the whole community. It is clear that to ensure the financial viability of ship owners, it is necessary to build up Hull insurance, Protection, and indemnity insurance reserves to ensure the normal operation of ship owners. Hull insurance activities are not only necessary for ship owners themselves, but they also ensure financial safety for both shippers and contribute to ensuring the stability of commercial maritime activities in particular and the stability of production life for the whole community in general.

IV. ENTITIES ENGAGED IN HULL INSURANCE AND PROTECTION AND INDEMNITY INSURANCE

According to the Law on Insurance Business, entities engaged in hull insurance activities and shipowners' civil liability include:

An insurance enterprise means an enterprise established, organized, and operating in accordance with the Law on Insurance Business and other relevant laws for insurance business, reinsurance business, and reinsurance assignment. Insurance businesses include life insurance enterprises, non-life insurance enterprises, and health insurance enterprises. The insurer is the entity that collects the insurance premium of the policyholder and commits to paying for the cases of insurance. The insurer participates as an insurance seller.

Policyholder means an organization or individual that enters into insurance contracts with insurance enterprises, branches of foreign non-life insurance enterprises, mutual organizations providing microinsurance and paying insurance premiums. The policyholder includes organizations and individuals that fully meet the conditions for subjects as prescribed by law. The policyholder is the entity that directly enters into the contract with the insurance enterprise.

Insured party means an organization or individual whose property, civil liability, health, life, obligations, or economic interests are insured under an insurance contract. Insured means an organization or individual whose credit, life expectancy, or assets are accepted for insurance by the insurance enterprise. The insured does not need to have the same condition of subject status as the policyholder.

Beneficiary means an organization or individual appointed by the policyholder or an insured to receive insurance proceeds as agreed upon in the insurance contract. Beneficiaries being organizations or individuals will be paid insurance premiums by the insurance enterprise when an insurance event occurs. The beneficiary can be both the policyholder and the insured. According to the law, the beneficiary is the legal owner of the compensation or payment from the insurance enterprise.

Intermediaries include insurance agents and insurance brokers. Intermediary entities may only enter into insurance contractual relations when they meet all conditions prescribed by law.

V. CONCLUSIONS

Marine insurance, including hull insurance and shipowners' civil liability, plays an extremely important and necessary role in international industry and trade. It helps businesses, ship owners protect goods and assets, minimize the risk of loss, damage, or accidents during transportation, and ensure safety and reliability for stakeholders. Compensation for damage in the event of an incident such as loss of cargo, damage, or accident of a cargo ship, marine insurance will provide adequate compensation. This helps minimize the significant financial impact on businesses and stakeholders. Enhance the trust and credibility of customers and trading partners. This can lead to long-term and sustainable relationships with business partners. Meet legal requirements when Marine Insurance is often accompanied by legal requirements related to the transportation of goods and cargo ship operations. By complying with these regulations, businesses can avoid legal problems and potential penalties or liabilities—financial support and quick recovery when incidents occur. Having a proper marine insurance policy helps businesses and individuals recover quickly. Financial support from marine insurance helps ensure continued operations and maintain business stability.

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