

# Trade & Transportation Insurance News



Hull Insurance - Increased Value

April 2007

## Introduction

**Traditionally, under the Marine Insurance Act, Hull insurance covered the market value of the ship and the shipowner's insurable interest. Any cover in excess of market value was prohibited.**

**Over time, shipowners successfully argued that there were additional costs associated with replacing a vessel and the principle of "Hull Interest" including 'Increased Value' was born.**

**This newsletter looks at how Hull Interest in general and increased value in particular is dealt with in the current market and the issues surrounding it.**

## Disclaimer

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

### Hull Sum Insured

Commercial Hull policies are traditionally 'Valued' policies. The shipowners establish the market value of their vessel at the time they effect the insurance (usually backed up by independent valuation) and in the event of total loss or constructive total loss (TL/CTL) this amount is paid in full. The sum insured is agreed in advance and is not reduced even if the market value may have fallen before the loss. This is referred to as Hull and Machinery Value.

### Hull Interest

Hull Interest cover was instituted as an excess sum insured to cover four main components:

- Increased Value (the difference between the vessel's market and trading values)
- Disbursements (additional crew or agent costs in the event of TL/CTL)
- Excess Liabilities not covered by P&I (vessel operating liability)
- Freight lost due to loss of vessel

The total sum insured for the various Hull Interests must not exceed 25% of the Hull and Machinery Value and is only payable in the event of TL/CTL.

The Hull and Machinery Value plus the Hull Interests Value gives the Total Value of the operational vessel.

Insurers usually rate the Hull Interests at a Total Loss Only rate which is more cost effective than the full rate applied to the Hull and Machinery Value.

### Increased Value

In its purest form, Increased Value is designed to absorb market value fluctuations on the vessel during the policy year.

However, because Increased Value is priced at a lower rate, shipowners realised they could save premium costs by using Increased Value Cover to also cover, in part, the ship's market value. For example, if the vessel has a market value of \$250,000 they would insure \$200,000 as Hull and Machinery Value and \$50,000 as Increased Value rather than \$250,000 H&M plus \$62,500 IV.

This may lead to the hull being underinsured and this practice should be avoided as it creates difficulties with large partial loss claims, which exhaust the Hull and Machinery Value but are not large enough to trigger a CTL. This means the payment of an Increased Value claim is not triggered and the insured is left with a shortfall in the overall claim payout.

Under English (widely used in Australia) and American hull conditions, the assured must be granted a waiver of the disbursement limit, which caps any excess covers to 25% of the Hull insured value, should he elect to cover anything in excess of the limit.

**The Team at  
Vero National Marine**