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Attention： The Institute Additional Perils Clauses – Hulls – An Important Additional Clause in Hull Insurance

Among the various additional clauses under hull insurance, there is one clause that deals with claims for additional losses arising from latent defects in the vessel.

This particular additional clause is not attached to most policies; therefore, even when it is included in a policy, it may sometimes be overlooked during the claims settlement stage. However, when an accident involving additional losses caused by latent defects does occur, its impact can be quite significant.

The above-mentioned clause is the "Institute Additional Perils Clauses – Hulls." This clause was originally designed as additional clause to the Institute Time Clauses – Hulls, 1/10/83 (ITC 1983), but it is now widely applied to the domestic PICC hull insurance clauses.

Since most Chinese shipowners' hull insurance is governed by the PICC clauses, this article will only provide a brief interpretation of the PICC Ocean Hull Insurance Clauses (2017 Edition) and this additional clause, for your reference.

Principal Clause Wording

中国人民财产保险股份有限公司船舶保险条款（2017 版）

一、责任范围

（一）全损险

…

7.本保险合同还承保由于下列原因所造成的保险船舶的全损:

…

（2）船舶机件或船壳的潜在缺陷；

…

（二）一切险

本保险合同承保上述“（一）全损险”所列原因造成保险船舶的全损和部分损失，…

二、除外责任

本保险合同不负责下列原因所致的损失、责任或费用：

...

（三）被保险人恪尽职责应予发现的正常磨损、锈蚀、腐烂保养不周，或材料缺陷包括不良状态部件的更换或修理；

Institute Additional Perils Clauses – Hulls

English Original Text

INSITUTE ADDITIONAL PERILS CLAUSES-HULLS

(For use only with Institute Time Clauses-Hulls 1/10/83)

1. In consideration of an additional premium this insurance is extended to cover

1.1 the cost of repairing or replacing

1.1.1 any boiler which bursts or shaft which breaks

1.1.2 any defective part with has caused loss or damage to the Vessel covered by Clause 6.2.2 of the Institute Time Clauses- Hulls 1/10/83

1.2 loss of or damage to the Vessel caused by any accident or by negligence, incompetence or error of judgment of any person whatsoever.

2. Except as provided in 1.1.1 and 1.1.2,noting in there Additional Perils Clauses shall allow any claim for the coast or repairing or replacing an part found to be defective as a result of a fault of error in design construction and which has not caused loss of or damage to the Vessel.

3. The cover provided in Clause 1 is subject to all other terms, conditions and exclusions contained in this insurance and subject to the proviso that the loss or damage has not resulted from want of due diligence by the Assured, Owners or Managers. Master Officers Crew or Pilots not to be considered Owners within the meaning of this Clause should they hold shares in the Vessel.

Combined Interpretation with PICC Clauses

Taking into account the sub-clause under PICC Clauses I.(I).7(2) (covered perils) and sub-clause II.(3) (exclusions), the insurer would consider that the main policy covers damage to the vessel caused by latent defects in the vessel's machinery or hull, but does not cover the cost of replacing or repairing the latent defect itself. Under this coverage scenario, two types of cases may arise:

Situation 1: A latent defect occurs in a component of the vessel and subsequently causes other loss or damage to the vessel. In this case, the insurer would consider that the other loss or damage to the vessel is covered, but the cost of repairing or replacing the latent defect itself is not covered.

Situation 2: A latent defect occurs in a component of the vessel but does not further cause any other loss or damage to the vessel. In this case, the insurer would consider that the cost of repairing or replacing the latent defect itself is directly excluded from coverage, as the insurance cover has not been triggered.

After the "Institute Additional Perils Clauses – Hulls" is attached to the policy, the insurer would consider that, where a latent defect has caused other damage to the vessel, the policy will extend to cover the cost of repairing or replacing the latent defect itself. However, Clause 2 of the Additional Clauses also states that if the latent defect has not caused loss or damage to the insured vessel, the

Additional Clauses will not cover the cost of repairing or replacing the defective part.

That is, after the attachment of this clause, the outcome in Situation 1 above changes: the cost of repairing or replacing the latent defect itself, which the insurer originally considered not covered, now becomes extended cover. However, the result in Situation 2 remains unchanged: if the latent defect does not further cause other loss or damage to the vessel, the insurer would consider that neither the main policy nor the additional clauses are triggered, and the cost of repairing or replacing the latent defect itself remains outside the scope of cover.

From the above, it can be seen that whether the policy has this Additional Perils Clause attached can sometimes have a significant impact on claim settlement, especially when the cost of repairing or replacing the latent defect itself is substantial. Therefore, when handling claims, everyone should pay attention to whether this clause is attached to the policy.