

# Marine Cargo and DSU Theory and a claim!

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- Part 1 – Marine Cargo.
- Part 2 – Marine Consequential Loss.
- Part 3 – Time travel, a claim, it can go wrong!

# CARGO

What is a project?

- “Something is built and earns revenue”
- It provides a net profit after the bills (fixed costs) have been paid - hopefully!

We cover Cargo and DSU/ALOP/Consequential Loss,  
but really it is .....

- Advanced Business Interruption.

What could that “something” be?

- A road, bridge, tunnel.
- A power station.
- A methanol plant.
- A shopping centre.
- It earns money and has fixed costs.

Pictures to set the scene.



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## Underwriting considerations **Cargo.**

- Cargo delivery is usually manufacturer to site.

### Risk elements?

- Transit to port, load, stow, perils of the sea, piracy, barges, discharge, route to final site, hauliers, fabrication, modularisation, off site storage, size, weight, value, theft and road traffic accidents.

Terms of sale, who's responsible? Which is best?

How is **Cargo** exposure managed?

- We set terms and conditions based on our experience and knowledge of the project, parties and locations.

What terms do we apply?

- All risks A clauses, JC20.



- Additional cover and exclusions.
- 370, JC56, Sanctions clause, Ex ROD for example. Beware open Extra Expenses.

### Attachment and termination points.

- Is it Cargo or CAR?
- Requires clarity.
- Whose deductible is bigger?
- 50 / 50 clause.

## Surveyors. What do they do?

- Survey, approve, make recommendations.
- Detailed in Surveyor Scope of Work document.
- All aimed at avoiding avoidable losses.

## Do they survey everything?

- No.

## What do they survey?

- Critical items. (more later).

Who pays for the surveys?

- It varies.

Why does it vary?

- The market!

A breach of survey warranty, can result in restricted cover for critical items.

But -

Beware the Errors and Omissions clause.

What does **DSU** cover?

- Profit and or Fixed Costs, sometimes Revenue.

What is this called?

- Indemnity. Always ask for a breakdown of the components.



How is a project paid for?

- Non recourse finance.

What do lenders do?

- Drive the requirement for DSU policies

Non Vitiating and Lenders agreements.

- Survey is paramount.

Is this indemnity a guarantee? Yes or No.

- It can be.
- PPA, Liquidated Damages, Penalties. Which is why we should always ask for a breakdown.

Does revenue exceed costs in the early part of production? And where is our time exposure?

- How would that claim be handled?

Who is our assured?

Should we have separate assureds?

- Section 1- Owner, Supplier, Contractor.  
The Contractor does not usually have any involvement in the final project.
- Section 2 – Owner and Lenders.

What are the four key elements?

1. **Critical items.** Time exposed, size, weight, value and ocean barges. JC 20 definition.
2. **Shipping dates and Arrival dates.**
3. **Replacement times,** off the shelf vs bespoke.
4. **Critical path.**



All are measured against the Scheduled Commercial Operation date.

What is this Critical Path?

- Composition of the project. Job A – Job B. A very complicated process, leading to the SCOD.
- The Scheduled Commercial Operation Date can change and our policy should follow these changes. JC20 caters for this.

## What is Increased Cost of Working?

- The economic test, saving a loss to all.

Do we want contractors and suppliers benefitting from ICOW?

- Not unless it saves a time loss.

Can indemnity and exposure change?

Should we monitor projects?

Which is best? All on one or multiple shipments?

Does it depend on the type of project?

- Multi line vs single line?
- Yes it does.
- Single line, one vessel.

How might a DSU claim occur?

- Cargo trigger peril.
- Limited Hull cover.

DSU exposure – What do I worry about?

We know the four key elements. Critical items, Critical Path, Shipping dates and Replacement times all vs the Start Up date. Managing this is key.

How many DSU claims can you have on one project?

What is the globally accepted DSU wording?

- JC20. The new starting point.
- Indemnity period – common starting point 12 months. 6,18 or 24.
- DSU deductible – common starting point 30 days and it applies to ICOW.

Let's write a risk. It's up to you?

- Hydro power station.
- South America.
- Two separate turbines.
- Tunnel boring machines.
- Transformers.



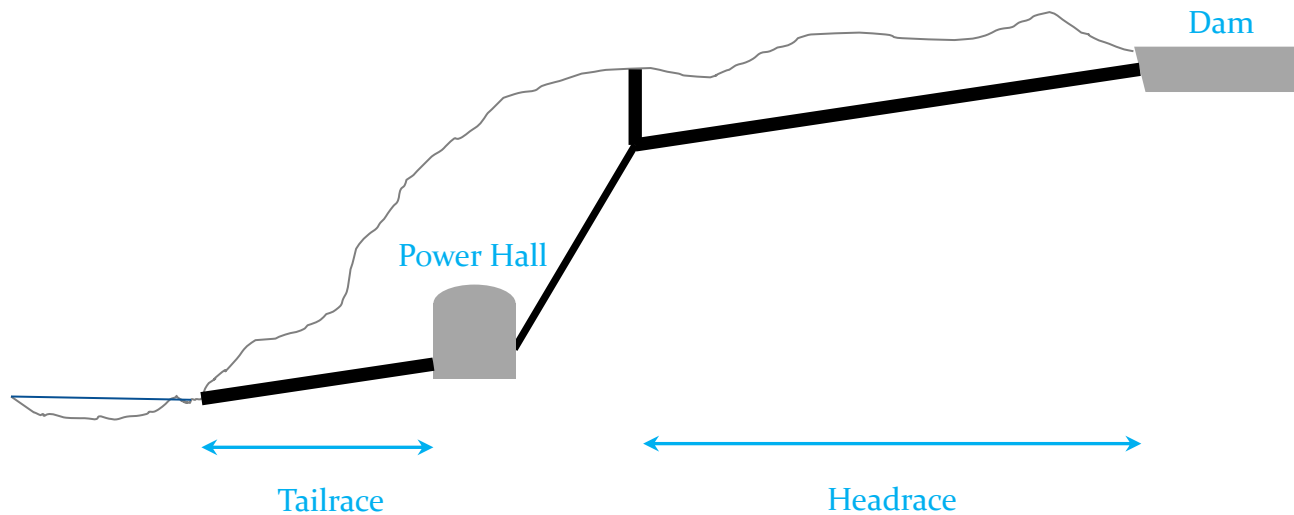
- Indemnity is gross profit.
- 12 months indemnity period with a 60 day deductible, applying to ICOW as well.
- We have set a price. 0.375% for Cargo and 0.65% for DSU. Some time exposure.
- A clauses, JC20, CSL, fees for the assured.

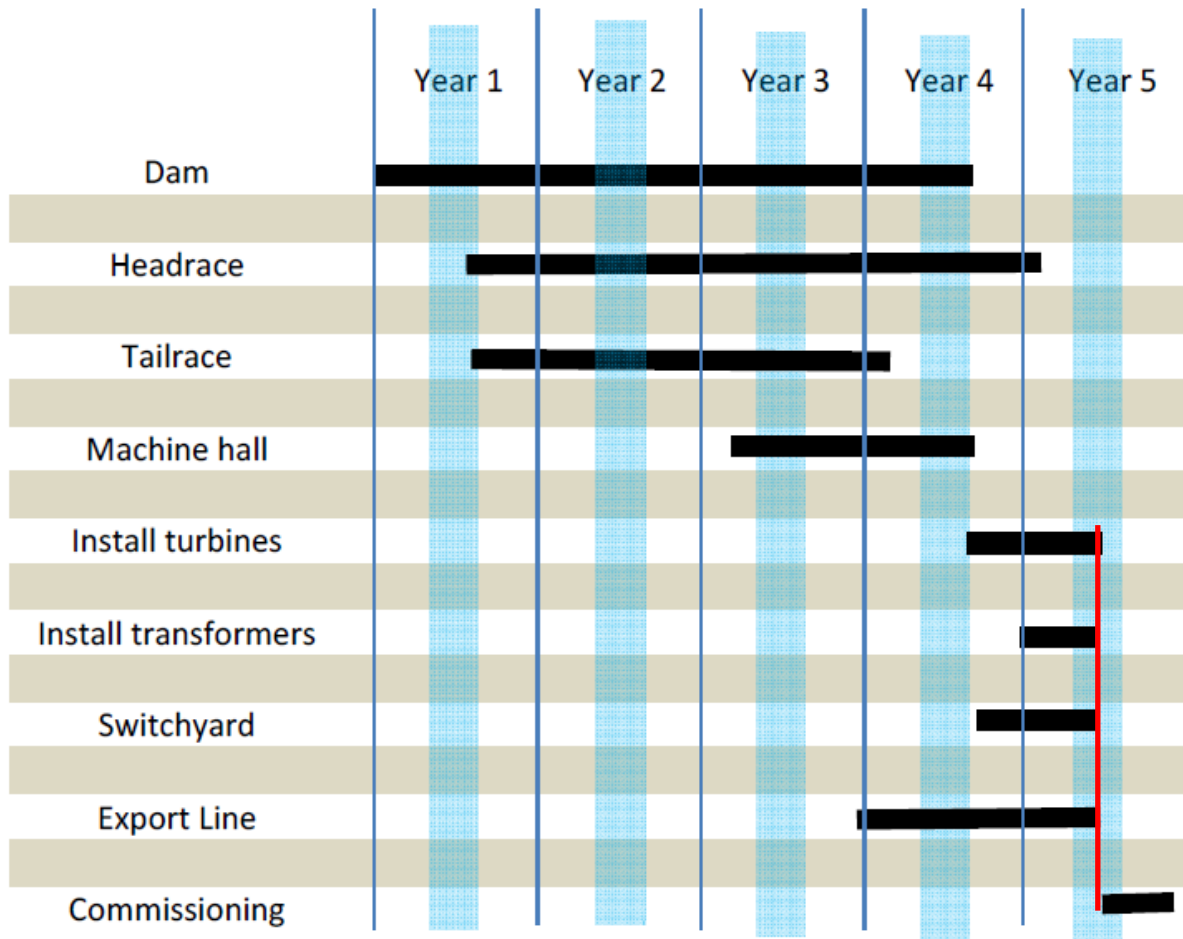
Would we write this risk?

- A show of hands please.

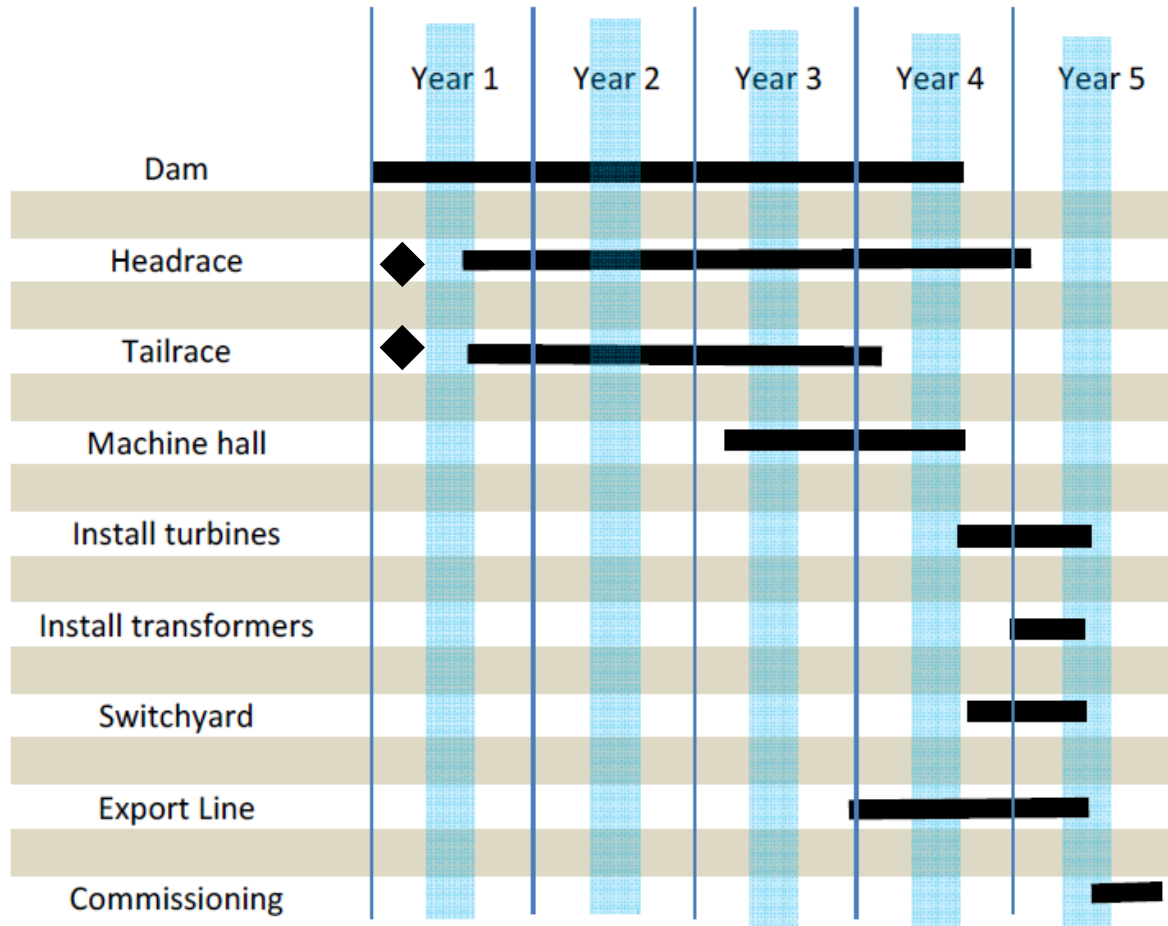
Three years later. A claim! Oh no!!  
Francis help!

# Hydro Power Project



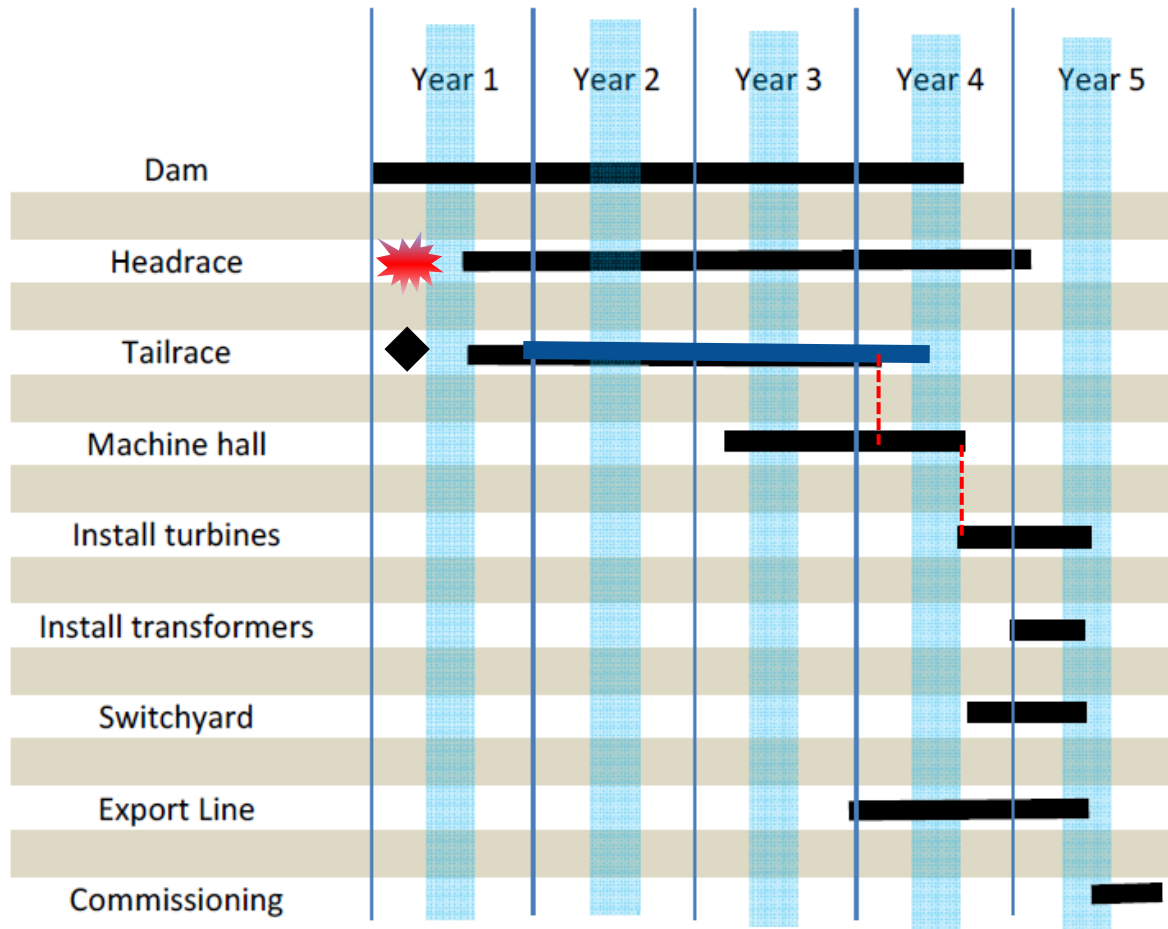


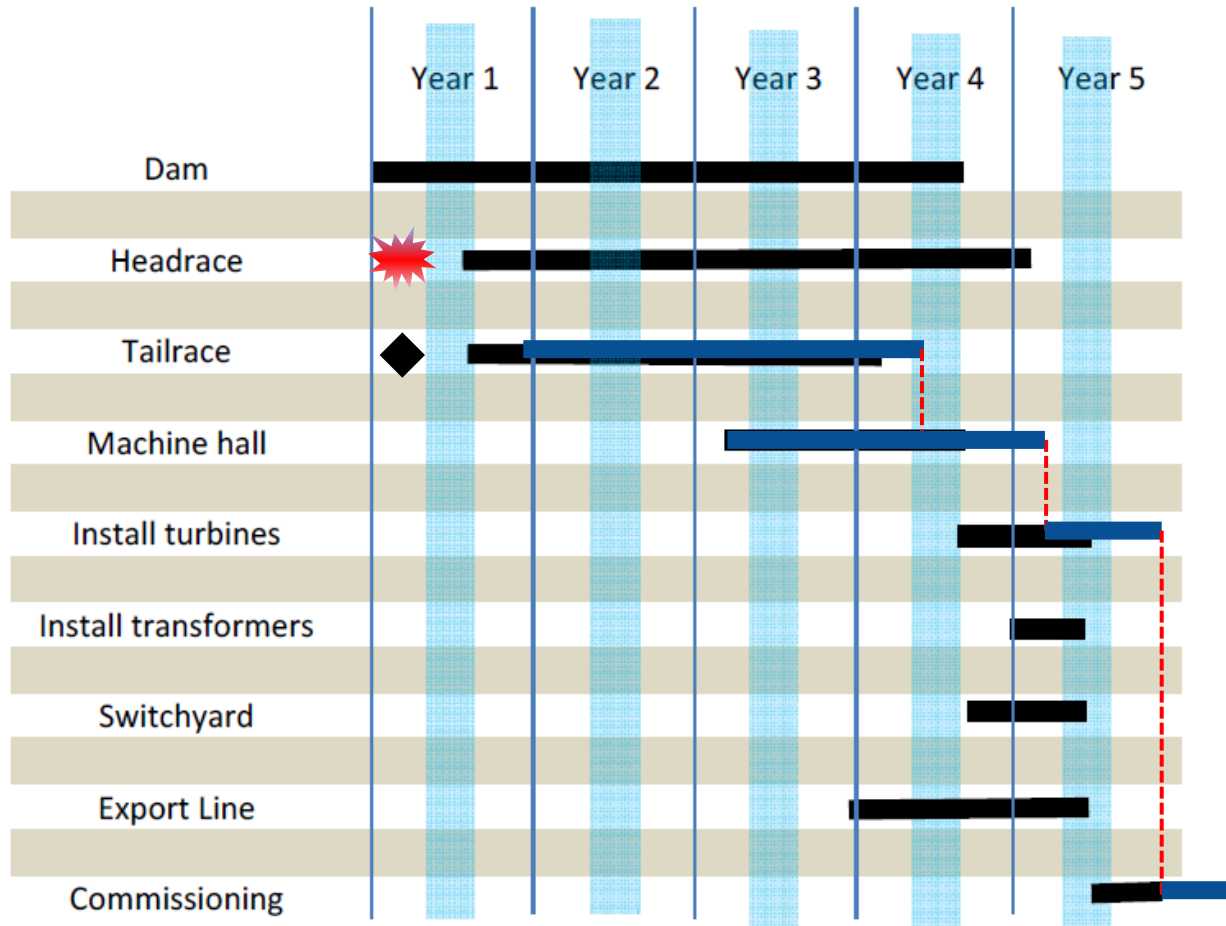


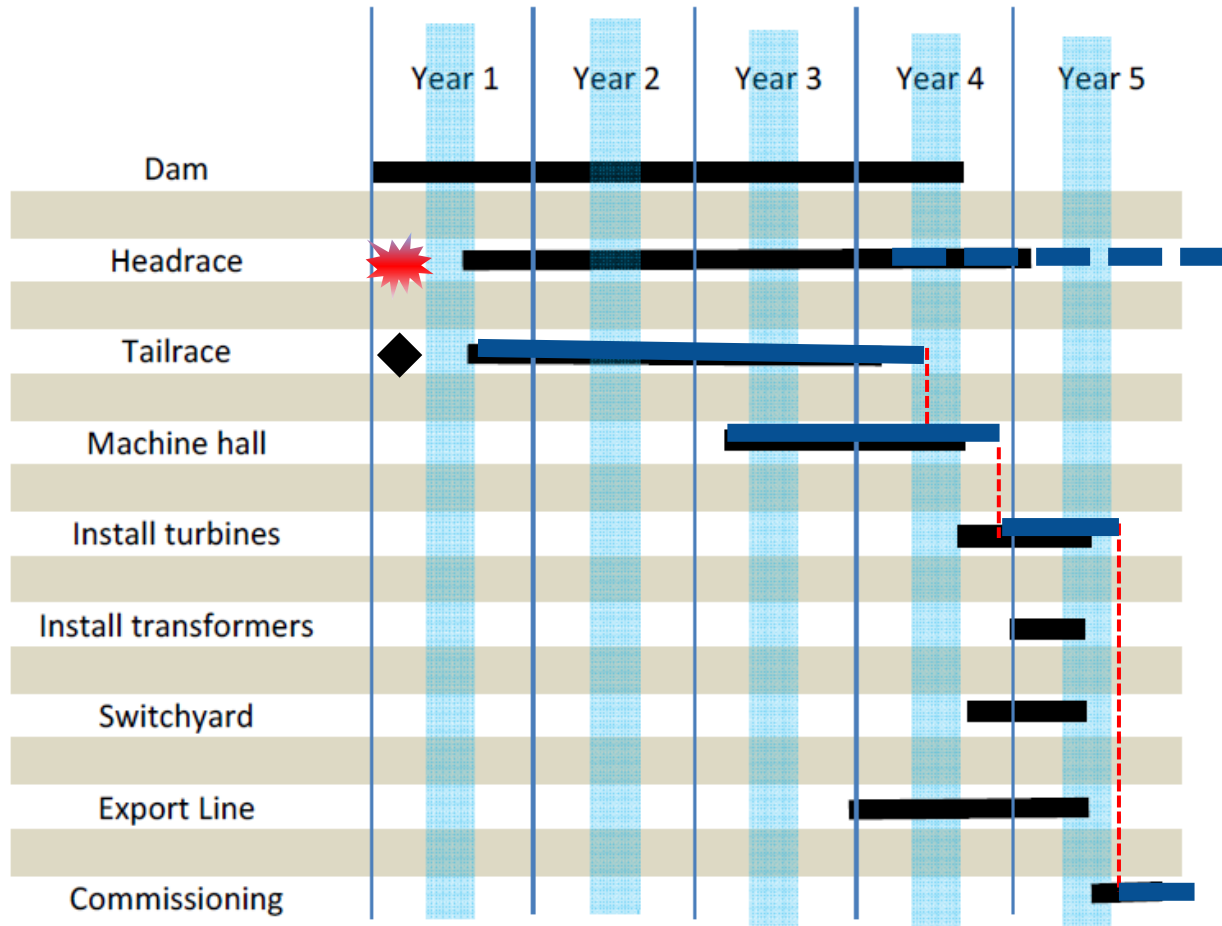


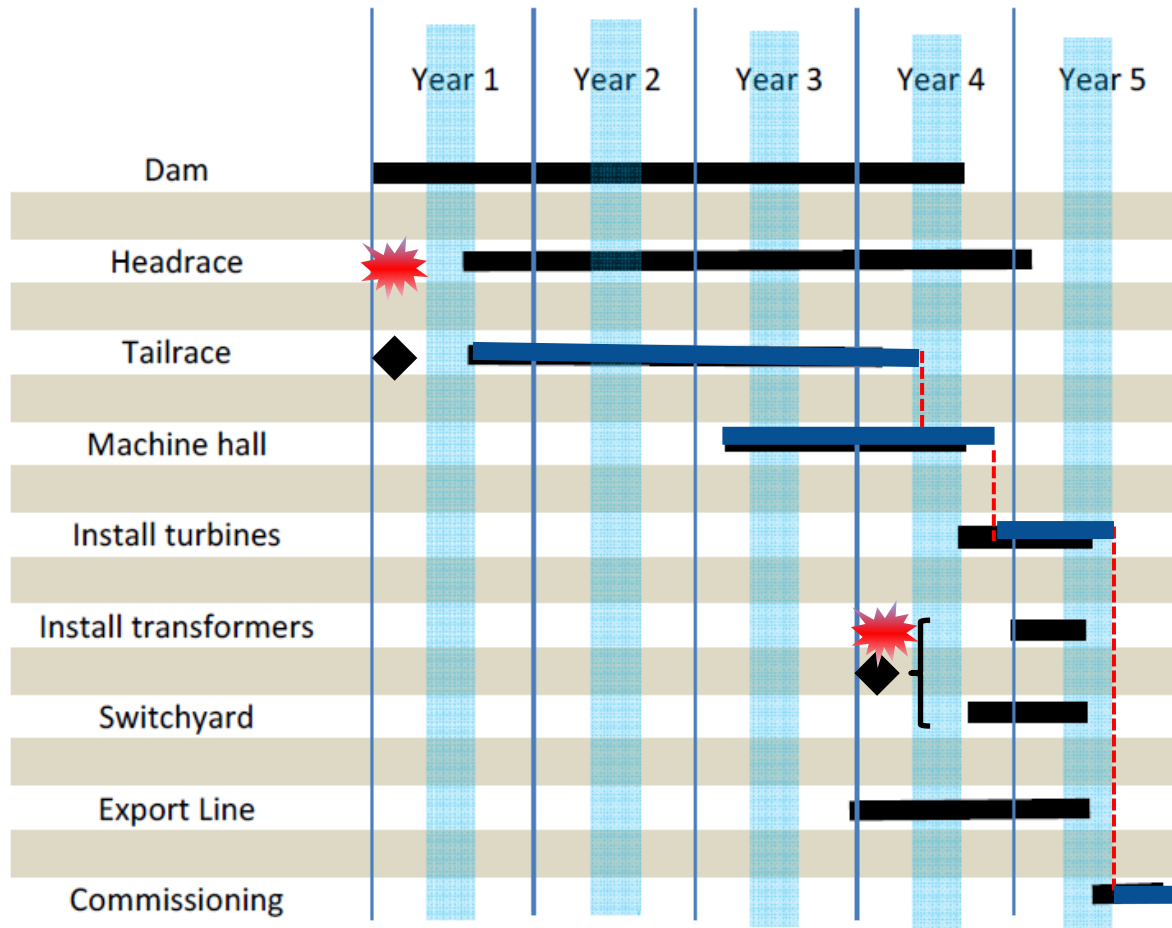


















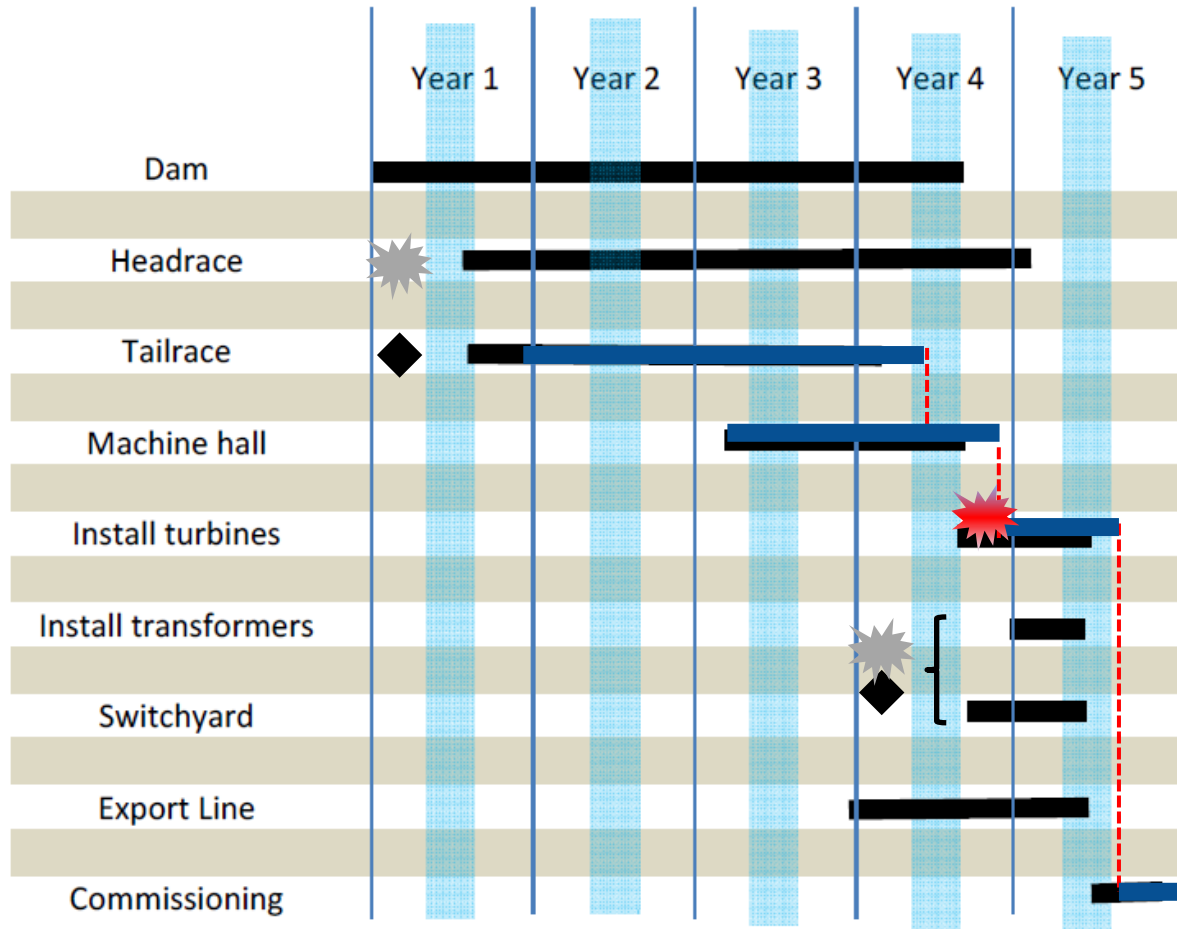














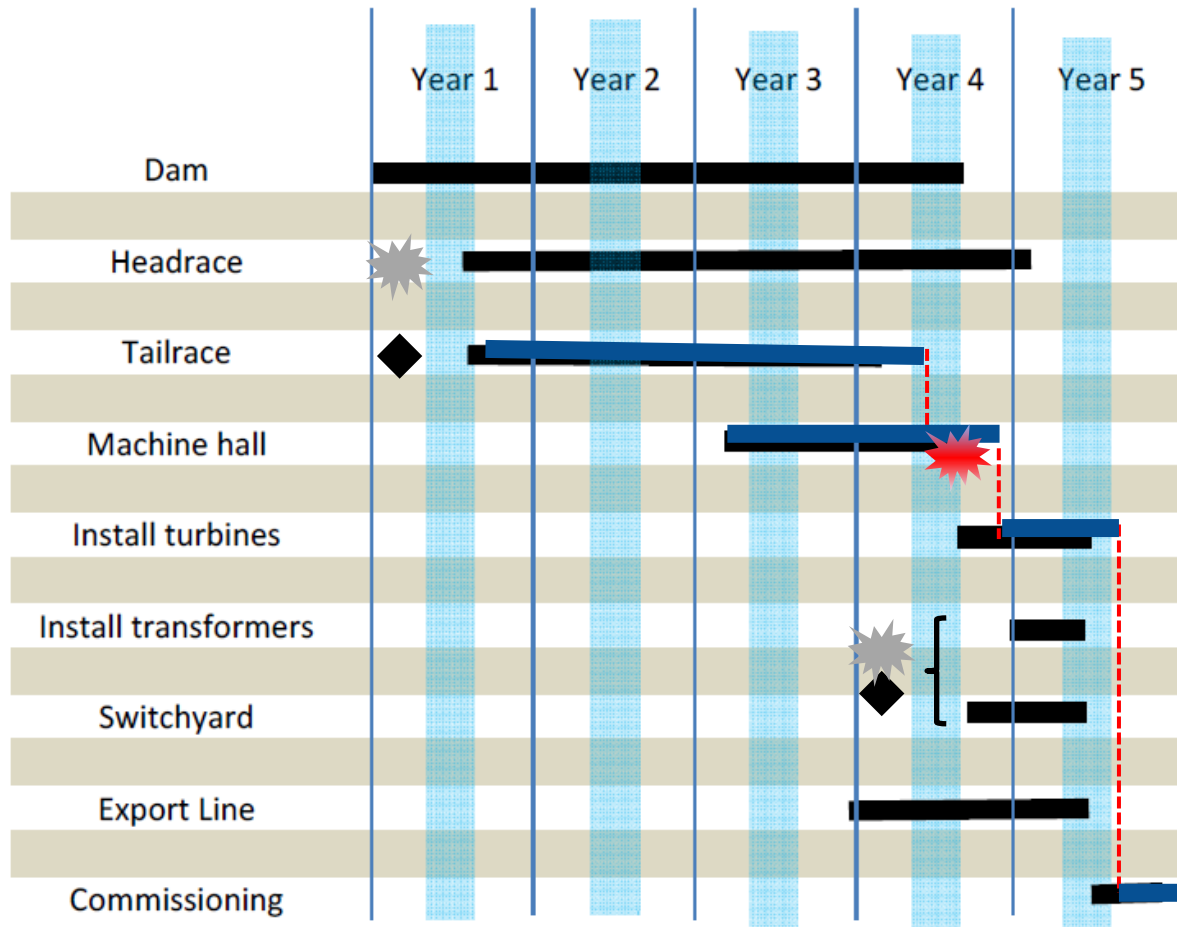


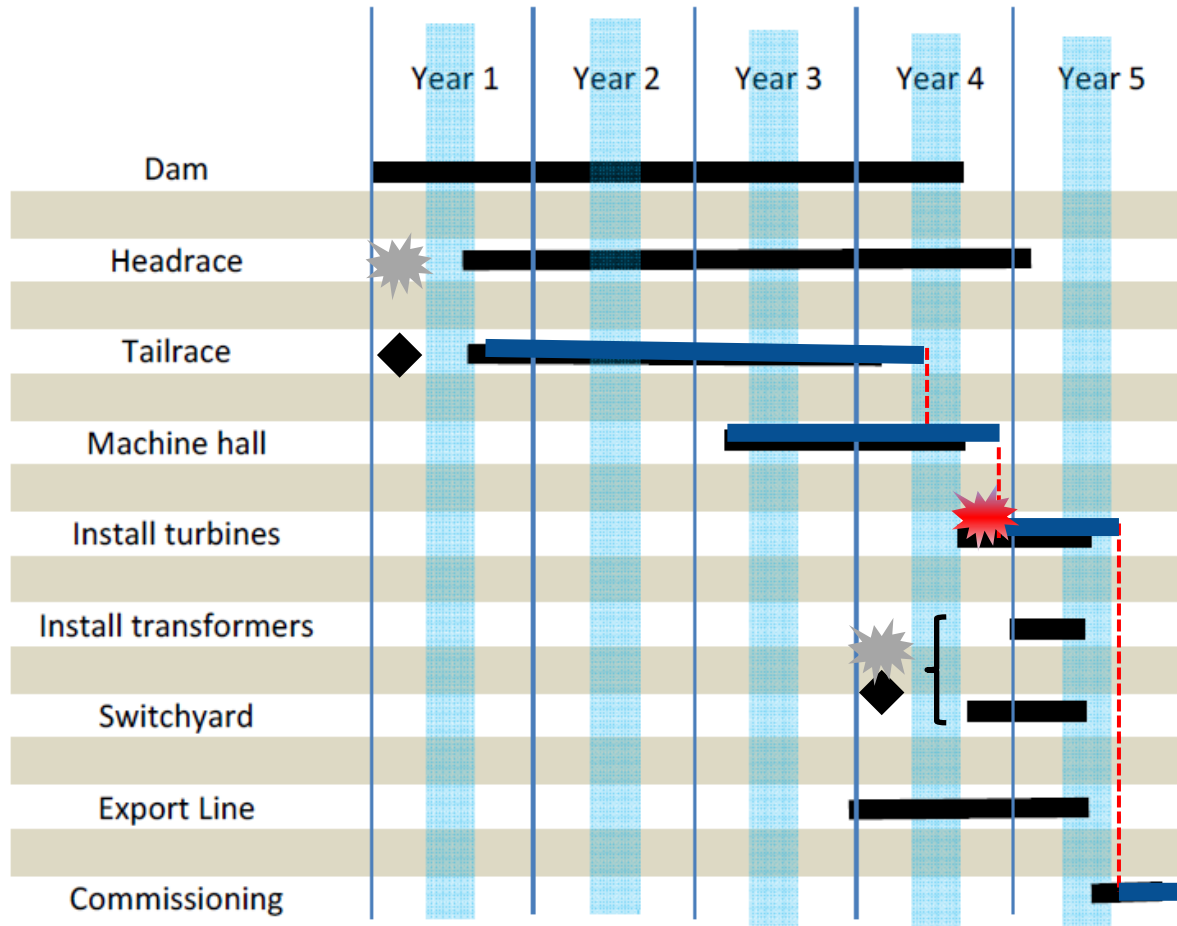




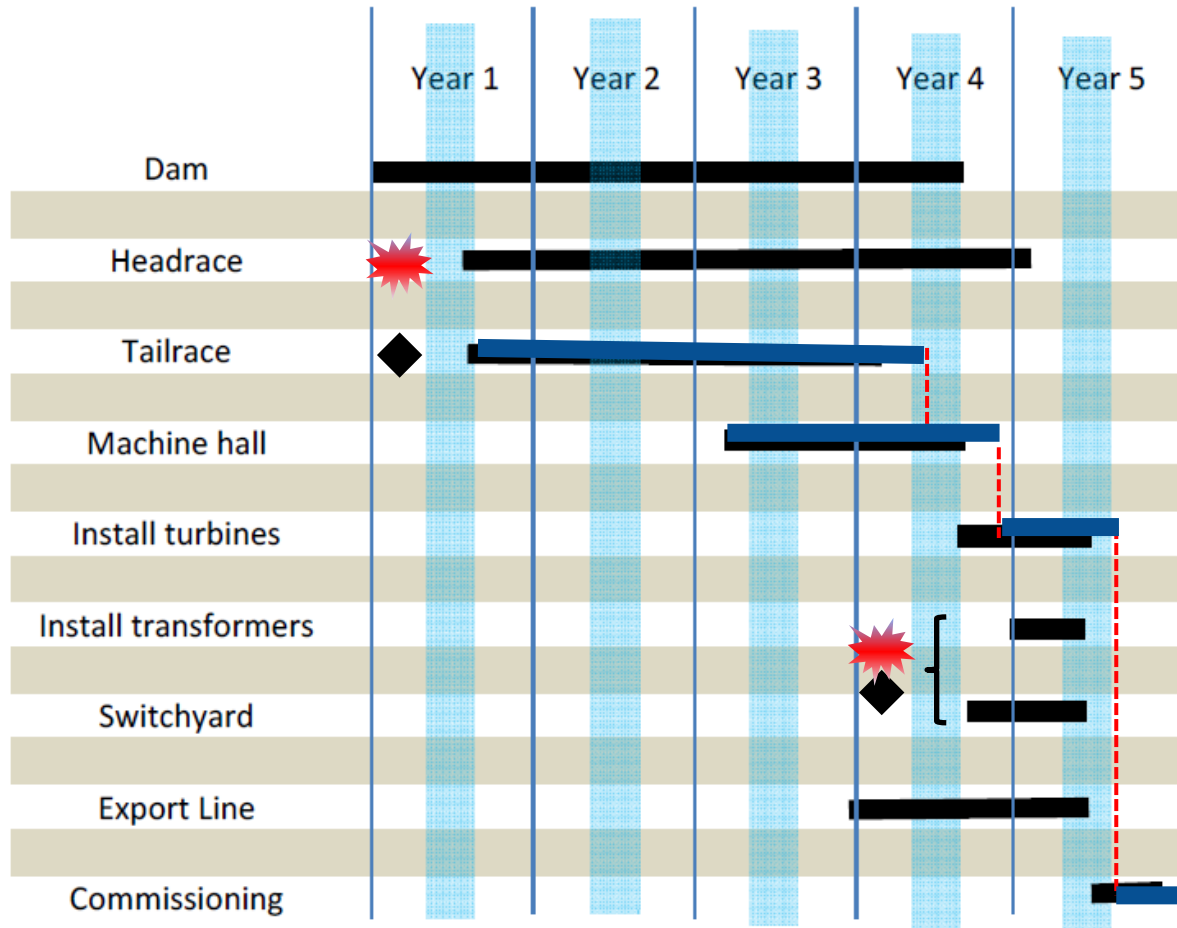




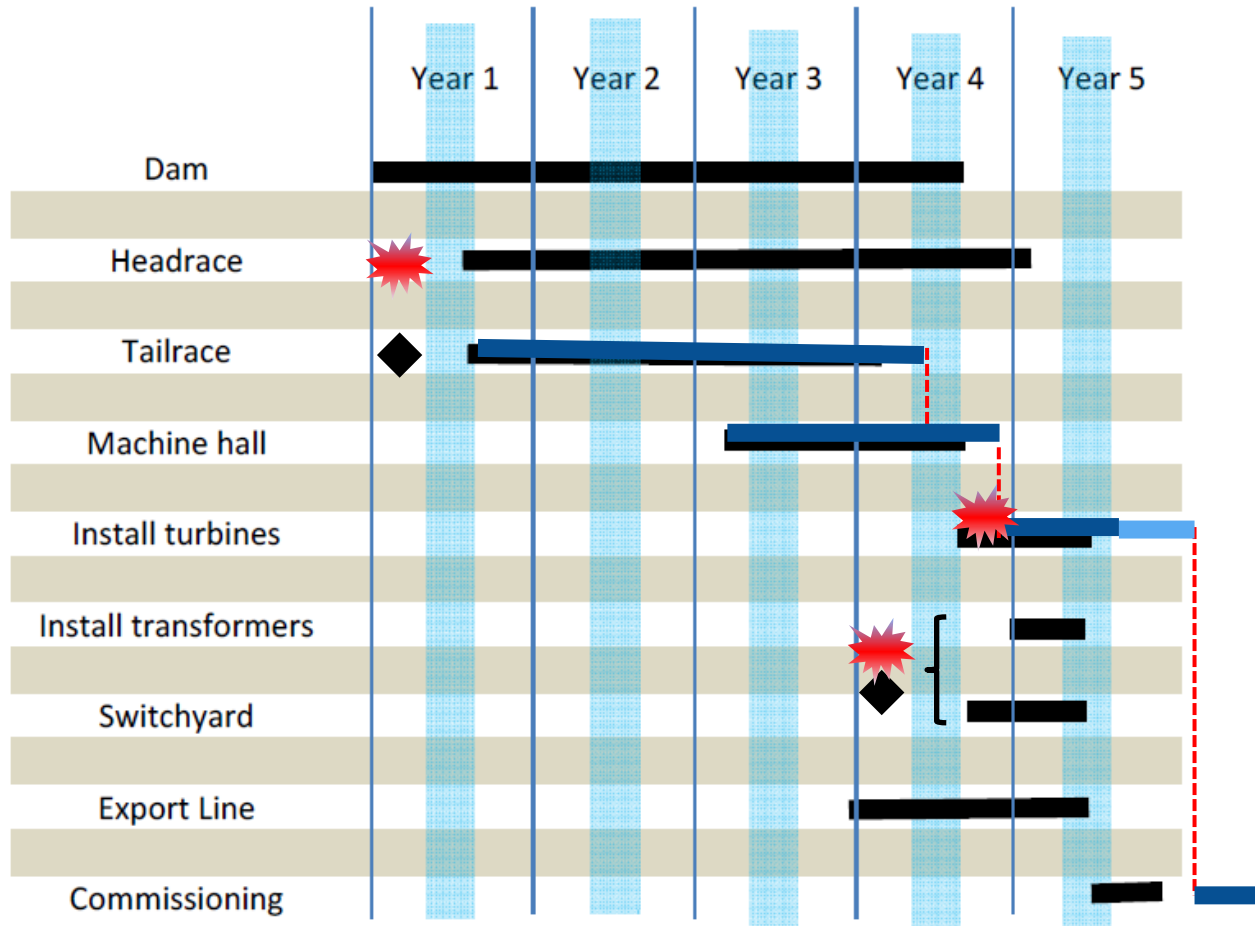




What was the loss?







	<b>ICOW</b> (US\$)	<b>Delay</b>
TBM	1.8 m	3 months
Xformer	2.5 m	Nil
Turbine	Nil	5 months @ 50%
<b>TOTAL</b>	<b>4.3 m</b>	<b>5.5 months</b>

## SUM INSURED CALCULATION

70 MW installed capacity

Average price	\$ 105/MWhr
One month	\$ 5.3 million
One year	\$ 63.5 million

## LOSS CALCULATION

\$ 5.3 million /month x 5.5 months = \$ 29.15 million

LESS 60 days (\$ 10.6m)

Net Loss = \$ 18.55 m

ICOW \$ 4.30 m

Total \$ 22.85 million

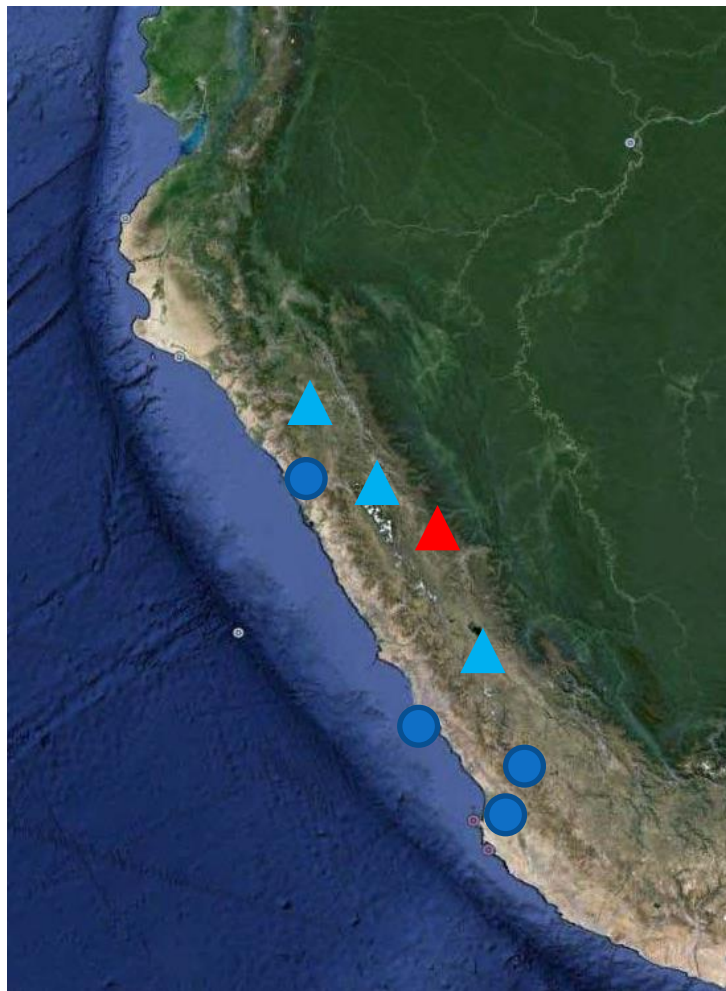
**BUT**

▲ Hydro

● Gas/Coal

\$ 150/MWhr

70 MW x \$ 150  
= \$ 7.56 m/month



# Delivery of turbine to final position: Is it

1 Cargo

2 CAR



## ICOW – Should it be contingent on success?

1 Yes

2 No

What would best minimise the total risk to a multi line, multi start up date plant?

- 1 All cargo on one vessel
- 2 Cargo spread over several vessels

If only Fixed Costs are insured, under JC20 and it is established that the “would-have-been” revenue is lower than the Fixed Costs in the indemnity period, would you pay

- 1 The would-have-been revenue
- 2 The Fixed Costs in total
- 3 The Fixed Costs pro rata to the original revenue estimate.



Thank you.