# Glossary of Terms and Definitions

**This glossary lists frequently used terminology in an attempt to help the broker decipher industry jargon.**

**Abandonment:** Giving up the proprietary rights in insured property to the underwriter in exchange for payment of a constructive total loss. The underwriter is not bound to accept the abandonment if doing so would cause him further liabilities.

**Actual total loss:** This occurs when:

- The insured property is completely destroyed; or
- The insured is irretrievably deprived of the insured property;
- Cargo changes in character so that it is no longer the thing that was insured (e.g., cement becomes concrete).

**Ad valorem bill of lading:** Same as valued bill of lading or declared value bill of lading.

**Advance:** An agreed percentage increase applied to the total of invoice plus freight, for unknown expenses at the time of shipment, and also for a portion of the insured's profit.

**Advanced freight:** The exposure of property to risk at sea.

**Affreightment:** A contract which sets forth the obligations of both shipper and a carrier concerning transportation of the merchandise. The most common forms of affreightment are bills of lading and waybills.

**Airway bill:** A bill of lading issued by an airline acknowledging receipt of merchandise and indicating conditions for carriage.

**All risks:** All fortuitous causes of loss. It does not embrace inevitable loss such as wear and tear.

**Annual policy:** Designed for clients with a small turnover of goods in transit. A deposit premium is paid and this is adjusted at the end of the year based on declared values.

**Application:** A written form submitted to an underwriter to obtain a quotation for a risk, containing the particulars of the risk.

**Assignment:** The passing of beneficial rights from one party to another.

**Average:** Partial loss or damage.

**Average adjuster:** Appointed by ship owner to prepare a general average statement.

**Average clause:** The clause in a marine policy which sets out the cover provided in the event of a partial loss.

**Average irrespective of percentage:** Indicates that partial losses will be paid regardless of any franchise (deductible) or percentage.

# Glossary of Terms and Definitions

**Avoidance:** The right of an underwriter, in the event of a breach of good faith or delay in the commencement of an insured voyage to step aside from the insurance contract and treat it as though he had never accepted the risk.

**Barratry:** A criminal or wrongful act by the ship's master or crew causing loss or damage to the ship or cargo.

**Benefit of insurance clause:** A clause by which the bailee of the goods claims benefit of any insurance policy affected by the cargo owner on the goods in the care of the bailee. Such a clause in a contract of carriage issued in accordance with the Carriage of Goods by Water Act is void at law.

**Bill of lading:** The most common form of affreightment documentation, which serves three purposes: 1) the contract of carriage between the ship owner and shipper outlining the carrier's liabilities, 2) the ship owner's receipt for the goods, and 3) the document of title to the goods, i.e., as a negotiable document, interest can by assigned to a third party.

**Bonded shipments:** Shipments on which duty is payable, but that are permitted to travel to inland destinations before customs inspection is made and duty is actually paid.

**Carriage of goods by water (COGWA):** Canadian legislation defining the responsibilities and liabilities of an ocean carrier transporting cargo.

**Certificate of insurance:** A document presented by the insurance company or insured as evidence that insurance is in effect. The insured may assign his rights under this negotiable document to a third party, usually the consignee, by endorsing the reverse of the certificates.

**Charter party:** A contract evidencing the agreement of a ship owner to lease his vessel to another person or firm.

**Clean bill of lading:** A bill of lading on which the carrier has made no indication of any problems with the condition of the cargo at the time of acceptance for carriage.

**Co-insurance:** Where two or more parties share the same risk. A co-insurer is not obliged to follow the decision of another co-insurer, except where they have been given authority for the other party to act on their behalf. Each co-insurance is a separate contract with the insured.

**Collect freight:** Freight that is payable to the carrier when the merchandise arrives at the port of discharge named in the bill of lading.

**Collision:** Physical impact between two or more ships or vessels used for navigation. In collision liability insurance, the term does not include contact of the insured vessel with anything other than a ship or vessel.

**Commercial invoice:** A document issued by the seller to the buyer, that gives details of merchandise sold, number of units being shipped, per unit cost, and the terms of sale.

**Common carrier:** Any ship owner or other carrier who offers his vessel or other mode of transportation to the public for the purpose of transporting merchandise.

**Consignee:** Person or firm to whom cargo is shipped.

# Glossary of Terms and Definitions

**Constructive total loss:** The situation in which the cost of repairing or recovering lost or damaged property plus the value of the salvage would exceed the property's values when repaired or recovered.

**Contributory value:** The value of property saved as a result of a general average act which forms the basis for determining each party's contribution in contribution in general average.

**Count bill of lading:** A bill of lading that shows the actual number of units being shipped.

**Country damage:** Damage caused by dirt, mud, etc., to commodities before they are shipped.

**Cover note:** A non-negotiable document evidencing insurance that may or may not indicate the terms of coverage.

**Customs broker:** A firm that specializes in clearing imported merchandise for transit to the interior. Normally responsible for obtaining and submitting all documents for clearing merchandise through customs and arranging inland transport as well as paying all charges related to these functions.

**Customs entry form:** A form required by Canada Customs for all merchandise entering Canada. It indicates country of origin, description of merchandise, and amount of estimated duty to be paid before merchandise is released to customers.

**Declaration:** Form used by an insured in reporting shipments under an open cargo policy when no evidence of insurance is required.

**Deductible:** A specific dollar amount, or percentage of the insured value, which will be deducted from all losses recoverable under a policy (see franchise for comparison).

**Direct or held covered:** A condition that requires the insured voyage to be direct from one place to another. If the voyage is delayed en route or if there is deviation from the direct route, the insurance coverage continues subject to payment of an additional premium, but only if the insured gives prompt notice of the delay or deviation, unless the policy provides otherwise.

**Disclosure:** The duty of the insured and his broker to tell the underwriter every material circumstance before acceptance of the risk.

**Dock receipt:** A form issued by a carrier or his representative as evidence that merchandise was in fact received by the carrier for shipment. Often referred to as a received for shipment bill of lading.

**Door to door:** Refers to merchandise shipped from the manufacturer's warehouse to the final consignee's warehouse. Same as house to house or warehouse to warehouse.

**F.P.A. (free of particular average):** A restricted form of insurance that covers the goods against total loss by marine perils. Partial losses are recoverable only if the vessel has stranded, sunk, or burnt, or the loss has been caused by fire, collision, contact, or conveyance with any external substance (including ice, but other than water), or by discharge of cargo at a port of distress. A total loss of any package during loading, transshipment, or discharge is a further important aspect of this coverage.

# Glossary of Terms and Definitions

**Free of particular average, American conditions (F.P.A.A.C.):** As above, except the restrictions for the losses are narrower. They must be caused by fire, standing, sinking or collision.

**Franchise**: Stipulation that no claim will be paid until a loss exceeds a flat dollar amount or a given percentage of the amount of insurance in force. After the loss exceeds this dollar amount or percentage amount, the insurance company pays 100% of the claim loss.

**Freight forwarder:** Firm specializing in arranging transport of merchandise and completing documentation required for the orderly transport of merchandise. Occasionally, they will take merchandise for the purpose of packing or consolidating with other cargo for export to the same country.

**Full value declared (FVD):** A notation on a waybill that indicates a specific value has been declared to the carrier for transporting merchandise.

**General average:** Loss arising through a voluntary sacrifice of any part of the ship or cargo, or expenditure to safeguard the ship and the rest of the cargo.

**General average contribution:** Such losses or expenditures are contributed to by all the interests at risk on the basis of their respective values.

**General average bond:** Document required of cargo owners, after a G.A. loss, obtaining their agreement to pay any contribution that may become due (refer to General average guarantee for comparison).

**(General) Average guarantee:** Given by cargo underwriters, after a G.A., agreeing to meet their insured's liability for contribution.

**Guaranteed freight**: Freight that is not prepaid but that is payable whether or not the merchandise arrives at the final point of destination.

**Hamburg rules:** Defines the responsibilities and liabilities of ocean carriers transporting merchandise internationally. In Canada, the Hamburg Rules were entrenched in the Carriage of Goods by Water Act, 1993 (Bill C-83) replacing the Hague Visby Rules.

**Held covered:** A provisional acceptance of risk, subject to confirmation that the cover is needed at a later date. Where applicable to an existing insurance, coverage is conditional, in practice, on prompt advice to the underwriter as soon as the insured is aware of the circumstances coming into effect.

**House air waybill:** An air waybill issued by a freight forwarder for an air shipment.

**House to house:** See Door to door.

**Inchmaree clause:** Covers losses resulting from a latent defect in the vessel's hull or machinery or from negligence of the master or crew. (Named after a legal case involving a ship called Inchmaree.)

**Inherent vice:** A property cargo's non-fortuitous susceptibility to loss or damage to the cargo (e.g., spontaneous combustion). It is always excluded because of its inevitable nature.

# Glossary of Terms and Definitions

**Insurable interest:** No one may benefit from marine policy unless they have an insurable interest at the time of the loss.  The insured must have some legal relationship to the goods insured, thereby benefiting by their preservation and being prejudiced by their loss or damage.

**Jettison:** Sacrificing cargo or ship's property during adversity to avoid possible sinking or loss or damage to the vessel and the remaining cargoes.

**Letter of credit:** Method of payment between buyer and seller commonly used for international trade.  It is arranged through banks and guarantees payment according to the terms of the sale.  The buyer opens a letter of credit in favour of the seller at his local bank by depositing the amount of the purchase price and dictates the documents the seller must present to obtain payment.  The letter of credit is sent to the seller's bank and, upon presentation of the documents, the local bank release payment.

**Master air waybill:** An air waybill issued by the originating airline when more than one airline is involved on a shipment, or when a freight forwarder issues a house airway bill.

**Material circumstance:** Any circumstance that would influence the judgment of a prudent underwriter in determining whether to accept a risk and the amount of premium to charge.

**Material representation:** A statement made to the underwriter before acceptance of a risk that is material to the decision in accepting and rating the risk.

**No value declared (NVD):** A notation on an air waybill or bill of lading that indicates that no specific value has been declared to the carrier for transporting the merchandise or more commonly a regular bill of lading or air waybill with no dollar value declared for the commodity being shipped.  Liability of the carrier would therefore be as defined by statute or as incorporated in the bill.  Same as a released bill.

**Non-delivery:** Disappearance of an entire shipping package or entire shipment.

**Non-disclosure:** The failure of the insured or their broker to disclose a material circumstance to the underwriter before acceptance of the risk.  A breach of good faith.

**Non vessel operating carrier (NVOC):** A firm that offers the same services as an ocean carrier. They are subject to the same laws and statutes those applying to a primary common carrier.

**Normal course of transit:** The ordinary transit of merchandise from the point of origin to the final destination including interruptions or delays that are beyond the control of the insured.  Intervention by the Insured breaks this course of transit.

**On board bill of lading:** A bill of lading confirming the receipt of merchandise and the fact that it was loaded on board the ocean vessel.

**On deck bill of lading:** A bill of lading that states (or has notation on it to the effect) that the cargo has been stowed on deck and is at the shipper's risk.  The carrier is not liable for loss or damage unless due to gross negligence.

**Open cargo policy:** Coverage for those clients who have a regular turnover of goods in transit.  The contract will cover all shipments that come within the scope of the insurance.  Premiums are debited monthly.

# Glossary of Terms and Definitions

**Optional stowage bill of lading:** A bill of lading that gives a carrier the right to stow cargo wherever he sees fit, especially with respect to the stowage of containers on deck. This is a standard ocean liner bill of lading.

**Overage additional premium:** All additional premiums charged when the carrying vessel is outside the scope of the classification clause, that is, when the ship is older than 15 years of age.

**Particular average:** A partial loss caused by marine perils, other than a general average loss.

**Perils of the sea:** Hazards arising on navigable waters though natural forces such as heavy seas, high winds, etc.

**Pilferage:** Theft of the contents, in whole or in part, of a shipping package.

**Prepaid freight:** Freight paid by the shipper to the carrier when merchandise is accepted for shipment. Not refundable even if the merchandise does not arrive at the intended destination.

**Proximate cause:** The most direct cause of loss, as opposed to consequential or the last in a series of events.

**Received for shipment bill of lading:** A bill of lading issued by the carrier evidencing actual receipt of merchandise for shipment. Also referred to as a dock receipt.

**Released bill:** Type of affreightment where no specific value has been declared for carriage (see No value declared).

**Representation:** A statement of fact made by the insured or their broker when negotiating insurance with the underwriter.

**Sacrifice:** The deliberate casting away or destruction of property to prevent greater loss or damage. General average sacrifice is for the common good, and saved interests make good the sacrifice in proportion to the values of their saved cargo (including vessel).

**Salvage charges**: The reward payable to salvers for saving property and life at sea.

**Settling agent:** An underwriter's representative who is authorized to settle claims.

**Short form bill of lading:** A summary-type bill of lading that does not incorporate all obligations and responsibilities of both parties. Unless a shipper is familiar with the carrier's tariff, he should request a full bill of lading.

**Single transit policy:** "One off" insurance for those clients who require transit cover infrequently.

**Straight bill of lading:** A bill of lading naming a specific party as the consignee. It is non-negotiable and only the named party can take delivery of the cargo.

**Subrogation:** The right of the underwriter to step into the shoes of the insured, following payment of a claim, to recover the payment from a third party responsible for the loss. Subrogation is limited to the amount paid in settling the claim under the policy.

# Glossary of Terms and Definitions

**Sue and labour charges:** Charges incurred by an insured in averting a diminishing a loss. They are recoverable in addition to the full sum insured.

**Utmost good faith**: One of the principles of insurance requiring full disclosure and mutual trust in negotiating an insurance contract. A breach of good faith by one party entitles the other to void the contract.

**Valued bill of lading:** A bill of lading issued by the carrier that indicates the amount that the shipper has declared as the value of the merchandise. The carrier will be liable for this amount in the event he is found responsible for loss or damage to the merchandise.

**Voidable policy:** Where the underwriter has the right to void a policy (e.g. in the event of a breach of good faith), the policy is termed "voidable".

**Warsaw convention:** Defines the responsibilities and liabilities of air carriers transporting merchandise internationally.

**Waybill:** A bill of lading issued by a carrier showing the merchandise to be transported and shipping instructions. It is usually used by airlines and truckers.

**With average:** A form of Institute Cargo Clause that offers slightly broader cover than the F.P.A. contract in respect to partial losses by perils of the sea, which are recoverable if they reach a certain percentage of the insured value (called a franchise and is usually 3 per cent). The franchise, which is not a deductible, is not applicable if the vessel has been stranded, sunk, or burnt or the loss has been caused by fire, explosion, collision, or contact with an external substance other than water.

**Without prejudice:** Claim payment with this disclaimer is one made apart from the policy terms and conditions. Settlement on a "W.P." basis may be made as a business decision or otherwise, but must not be treated as a precedent for future similar settlement.

**York/Antwerp rules:** Defines the responsibility and liabilities of ocean carriers transporting merchandise internationally. In Canada this code has been replaced by the Hamburg Rules as entrenched in the Carriage of Goods by Water Act, 1993 (Bill C-83).