Marine Hull Builder’s Risks

Prepared by the Builder’s Risk Subcommittee of The American Institute of Marine Underwriters

March 2017
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Introduction

With both the values and the complexity of today’s vessels constantly increasing, it is imperative that marine underwriters have a thorough understanding of builder’s risk exposures and how to effectively underwrite this class of business. Recognizing these concerns, the AIMU hull committee convened a builder’s risk subcommittee to put together this white paper, the goal of which is to increase underwriters’ understanding of the exposures and the underwriting issues surrounding this class of business. The hope is that, through increased knowledge, the marine market will be able to provide a product that meets the needs of insureds and brokers while generating an underwriting profit for underwriters.

The paper has been divided into several sections, and is based on the American Institute Builder’s Risk Clauses (February 8, 1979). After an overview of the exposure, the topics of underwriting, forms and loss prevention are explored in detail. An appendix has been included which contains all of the forms discussed as well as a pro-forma builder’s risk application.

We hope you find this paper useful.

Builder’s Risk Subcommittee Members

Mike Brenner  
Michael Csorba  
Rick Falcinelli  
Joe Grasso  
Karen Griswold  
Roy Hornbeck  
Brian Murphy  
John Phillips  
Mike Schliwka  
Steve Weiss

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Understanding the Exposures

According to recent industry data\(^1\), there are approximately 141 active U.S. shipyards of varying size and capability that engage in new vessel construction. The data source further categorizes the builders as Large Commercial and Military, Small/Midsize Commercial and Large Yacht. Some of the yards represented in the data are dedicated to new construction work only, but many also perform ship repair work. Not included in the data is a large number of yards that perform only ship repair work and are not within the focus of this paper. New vessel construction activity is occurring in 31 states, however over two thirds of the number of building yards are found in six coastal states, with a significant concentration in and around the Gulf of Mexico.

The location of a yard is driven by a number of factors, including the cost of land, proximity to the coast and trade routes, ease of access and distance from industrial support and supply infrastructure. While it may be beneficial to site a yard far up a river for any of these reasons, a difficult transit could deter shipowners. Some regions are vulnerable to earthquakes, volcanic activity, tropical storms or tsunamis and these factors also need to be considered.

Builder’s risk construction projects can range from simple, low-technology vessels such as a deck or hopper barges to large, highly complex ships. As the size and complexity of a project grows, the inherent risk exposure generally increases as well. Factors contributing to this increased risk include: project duration and cost, use of modular construction, installation of specialized machinery, advanced control and monitoring systems, and a higher component of flammable furnishings or fixtures (referred to as the “fire load”).

The JH-143 survey form, to be discussed later in this report, provides a structured, universally accepted approach to assessing shipbuilding risks. The components of the survey encompass a number of areas, covering both the physical condition of the yard and management practices of the builder. Use of a less comprehensive survey form, covering the major topics in less detail, may be appropriate for smaller yards building relatively simple vessels. Regardless of the size of the yard, the goal of the risk survey is to make the underwriter aware of the site conditions and management practices, and to inform the yard of potential hazards and recommended mitigation strategies.

Fire represents the greatest threat to any vessel under construction/refit and the yard where it is being built. Fire prevention involves at a minimum good housekeeping and materials management, an effective “Permit To Work” system applicable to hot work, and a well-trained work force. The effectiveness of a yard’s emergency response plan will often dictate whether a fire that does occur is quickly extinguished or becomes catastrophic. Vessel types most prone to fire loss during construction/refit are mega yachts, cruise and passengers vessels, and vessels constructed entirely of wood or fiberglass.

\(^{1}\text{Marine Log-Tim Colton, Directory of U.S. and Canadian Shipyards, updated October 9, 2013}\)
A prudent underwriter should request and review information on the following areas when considering a builder’s risk exposure:

**Location**
- Earthquake – Is the risk in an earthquake zone? What is the location’s proximity to the nearest active fault?
- Flood / Storm Surge / Windstorm: Is the risk a coastal exposure? How far from water? Is the location in a flood zone? What is the storm surge risk? What were the impacts of any previous storms on the insured location?
- Security of facility: What type of alarm system is used? What other type of security is used at the facility?
- Ease of launching: located on navigable waters

**Fire Protection**
- COPE Factors
- Age and construction of facility
- Distance between structures
- Sprinkler systems / alarms
- Does the yard have its own fire company? If not:
  - Distance to fire pump and firehouse? Is nearest fire department volunteer or paid?
  - Does the yard conduct drills the local firefighters?
  - Do the local fire companies have any training in fighting a fire aboard ship?
- Housekeeping and storage
- Storage of flammables
- Hot work procedures
- Paint, fiberglass work

**Experience of Builder**
- Number of years in business
- Vessels built - similarities to current product
- Financial condition
- Loss history
- Employees: Experience, turnover
- References
- Safety Procedures / Hurricane Plans

A sample application is included in the Appendix at the end of this paper. While a completed application will provide an underwriter with most of the basic information needed, each risk is unique and will likely require additional information related to the applicant’s specific operations.
There are several other aspects of builder’s risks exposures which present increased risks to underwriters, as described below

**Launching**

Launching occurs at or near the end of the construction process and must be a carefully planned and executed event. There are a number of different launching methods, such as side launching, slipway launching, floating-out from graving docks or dry docks, or using air bags. Smaller vessels are frequently lowered into the water by crane, mobile marine lift or lift platform. Each method has its own particular risks that must be adequately addressed by the yard’s launching procedures. Failure to fully consider these risks can endanger the vessel, facility, yard workers or bystanders at a launching. For example, slipway launches use gravity to carry the ship into the water, but the vessel’s momentum must be checked and controlled so that the vessel can be taken in hand by tugs rather than running aground on the opposite bank. This method also requires a ship design that can withstand the stresses imposed by the transition from the slip to the water.

Vessels are often launched before all work is fully completed, with final outfitting taking place alongside a pier or wharf. This is usually done to vacate space on the building ways for the next project. In the case of large, complex vessels, considerable time may elapse between the launching and actual delivery date. During this period the yard must ensure that the vessel is properly attended to, with due consideration given to mooring arrangements, depth alongside, watertight integrity of the hull, gangway access, utilities, and fire and security patrols.

**Trial Trips**

Trial trips on newly constructed vessels present underwriters with navigational perils in addition to the general yard exposures. Of additional concern is the startup process of all new machinery, systems and their interactions. Underwriters should be aware of who will be on board the vessel during trials (both yard personnel and third parties), who will be in charge, who is captaining the trial and their experience/expertise and, finally, where the trip will take place and its expected length.

**Dock and Sea Trials:**

During this phase the builder must demonstrate that the vessel’s machinery and auxiliary systems function as designed and the vessel can meet its contractual performance requirements. In addition to operating the machinery, certain tests such as the inclining test for stability will be carried out and the majority of the vessel’s documents and certificates will be issued.

Once the machinery and systems have been tested satisfactorily at the dock, the vessel may undergo sea trials. Since title will not yet have been transferred to the owner, sea trials are
carried out under the direction and at the risk of the shipyard, with numerous parties involved in the construction aboard to witness the tests. The vessel must be manned with sufficient qualified deck and engineering officers and crew, and be fully outfitted with required safety and lifesaving equipment.

The trial evolutions should be carefully planned and not conducted in haphazard fashion. The designated testing area should provide sufficient sea room for the required maneuvers, clear of vessel traffic and other hazards to the extent possible. By necessity, the vessel and its equipment may be pushed to maximum performance limits during trials, and it is incumbent on those conducting the tests to minimize the possibility of a loss occurring.

The trial period is one of great activity involving the yard and owner’s personnel, class surveyors, U.S. Coast Guard or other regulatory body and manufacturers’ representatives. In spite of pressure from all sides to complete the trials as quickly as possible, a careful and methodical approach must be taken to identify any problems and rectify them while the vessel is still at the yard.

**Delivery Trips**

Additional exposures present themselves with delivery of completed vessels. It is standard practice for the client to take delivery of the vessel at the yard. Recently, however, there has been an increase in deliveries by yards to destinations in the continental United States. The underwriter must consider true navigational exposures that were not contemplated in the build. Additionally, collision liability during the delivery needs to be factored into the underwriting process.

The following additional information should be gathered and assessed:

- Construction of the vessel to be delivered and its ability to withstand the rigors of the delivery voyage
  
  Lightly built vessels and/or vessels without load line certificates which are intended for operation on inland waterways may incur serious structural damage if operated or towed in the open ocean without proper precautions. Permission to proceed on such voyages may be required by regulatory bodies.

- Details of the proposed navigational route and estimated date of departure and arrival

- Qualifications of the master, chief engineer, officers and crew
  
  The captain and chief engineer should have experience with operating the particular class of vessel. If the vessel is the first in its class or otherwise unique, it
may be prudent to have technical representatives on board in addition to the delivery crew.

Prior to the commencement of the voyage, a trip survey or, if the vessel is being towed, a trip in tow survey, will typically be conducted to ensure the safe transit of the vessel from the yard to its final destination. The survey should be in the form of a Condition and Suitability survey, and underwriters should not accept a typical Condition and Valuation survey in its place. In the case of a delivery tow, the condition and suitability of both the vessel being delivered and the towing vessel must be ascertained. A prudent underwriter should ensure that, at a minimum, the following areas are addressed in the survey report:

- Suitability of the vessel and its tug (if applicable) for the contemplated voyage
- Stability, trim and watertight integrity of the vessel(s)
- Securing of any on-deck gear or cargo (if permitted)
- Removal or safe stowage of oil or other hazardous materials onboard
- Soundings of tanks and voids
- Credentials and experience of the officers and crew
- Inspection and testing of propulsion, steering gear and other critical systems
- If applicable, bollard pull certification, towing arrangement and inspection of main and emergency tow gear
- Weather and intended route, scheduled port calls, harbors
- Ports of refuge and contingency plans

The surveyor’s recommendations should be issued in the form of a Voyage Letter that contains specific conditions for the safe completion of the voyage, including but not limited to:

- Required minimum fuel, lubes, water and stores
- Procedures for securing the vessel(s) for sea
- Agreed route of voyage, port entry and departure procedures
- Weather routing services and weather restrictions
- Daily position reporting and other required communications

The Voyage Letter must be reviewed with and signed by the vessel’s master, with the express understanding that non-compliance with any or all of the conditions may constitute a breach of warranty with respect to insurance coverage. Finally, the surveyor should issue a Tow Certificate, or Sail Away Certificate, confirming that all conditions and recommendations were carried out prior to the vessel’s departure.
Coverage Forms and Underwriting Considerations

In its simplest form, a marine hull builder’s risk policy covers physical loss or damage to a vessel, as well as certain liabilities incurred by the insured, during its construction, launching, trial trips and, if coverage is extended, delivery of the insured vessel. Coverage under standard builder’s risks forms is on an “all risks” basis, meaning that coverage is provided for fortuitous losses unless there is a specific exclusion applicable.

Lines 59 to 60 in the “Hull Risks” clause states:

“This policy insures against all risks of physical loss or damage to the Vessel occurring during the currency of this Policy, except as hereinafter provided.”

As with other “all risks” forms, there must still be some fortuitous accident or casualty resulting in damage attributable to any external cause. However, and as opposed to a “named perils” form such as the American Institute Hull Clauses, the burden of proof is on the underwriter to demonstrate that a condition is excluded or otherwise not covered by the form.

The “all risks” nature of the American Institute Builder’s Risk Clauses is clarified in the “Subject Matter” clause (lines 12 to 23 of the form) as quoted below. This clause lists exactly what is covered by the form, including some items that are not a permanent part of the vessel, such as “scaffolding and similar temporary construction,” but these additional items must be included in the “Agreed Value”.

SUBJECT MATTER
The Subject Matter of this insurance (herein referred to as the Vessel) is the hull, launches, lifeboats, rafts, furniture, bunkers, stores, tackle, fittings, equipment, apparatus, machinery, boilers, refrigeration machinery, insulation, motor generators and other electrical machinery, ordnance, munitions, and appurtenances, including materials, plans, patterns and moulds, staging, scaffolding and similar temporary construction (to the extent only that the cost of any of the foregoing is included in the Agreed Value) incorporated in or allocated to Hull No. _____ Type _____ building at the yard of the Builder at ________.

In the event of any material change in the specifications or design of the Vessel from that originally represented to the Underwriters, such change is held covered provided (a) notice is given to the Underwriters immediately following such change, and (b) any amended terms of cover and any additional premium required by the Underwriters are agreed to by the Assured.

This Policy insures only while the Vessel (ashore or afloat) is at the building location named above; while in transit within the port of construction to and from such location; and while on trial trips (including proceeding to and returning from the trial course), as often as required, within a distance by water of 250 nautical miles of the port of construction, or held covered at an additional premium to be named by the Underwriters in the event of a deviation of voyage, provided prompt notice thereof is given to the Underwriters.

Open Cover

The American Institute Builder’s Risk Clauses was designed to cover the construction of a single vessel. Many builder’s risk covers written today are so called “yard covers” where multiple vessels are covered under one policy as declared during the term. Under this scenario the policy has to be modified to handle multiple vessels. Underwriters will typically attach a
schedule of vessels to be constructed and endorse the policy as needed to reflect the attachment or delivery of individual vessels. The policy will usually have a per vessel limit and a per occurrence limit, although there are some exceptions where the policy has no occurrence limit. Underwriters should be vigilant and carefully monitor and understand their aggregate exposures when the policy does not have an occurrence limit to ensure that they have a clear understanding of their total exposure for the risk. Open covers will be discussed further in the next section.

**Multiple Limits**

While the coverage offered under standard hull forms for navigating vessels contains four insuring agreements with a separate limit for each agreement, insureds under a standard builder’s risk form can potentially recover up to five times the policy limit. While it’s unlikely that a claim would arise where 100% of all five limits would be recovered, underwriters need to be aware of these five limits and how they work together.

The basis of these five limits is the “Agreed Value” clause (lines 37 to 42 as quoted below), which specifies the maximum amount payable in the event of a loss. It is important to note, however, is that this limit applies to each of the five major coverages within the policy.

**AGREED VALUE**

The Vessel, for so much as concerns the Assured, by agreement between the Assured and the Underwriters in this Policy, is and shall be valued at the completed contract price plus the value of materials and equipment destined for the Vessel but not included in such price. If no amount is stated for such materials and equipment, Underwriters shall have no liability for any loss, damage or expense thereto or in connection therewith, and such materials and equipment shall not be deemed a part of the Vessel.

The Agreed Value is provisionally declared as $____, being the contract price of $___ and $___ for materials and equipment destined for the Vessel but not included in the contract price.

The “Agreed Value” clause works together closely with the “Escalation” clause (lines 43 to 48 as quoted below):

**ESCALATION**

In the event of any increase or decrease in the cost of labor or materials, or in the event of any change in the specifications or design of the Vessel (not constituting a material change for purposes of the held covered provisions of the Subject Matter clause), the Agreed Value shall be adjusted accordingly, but any increase shall be limited to ___ per cent. of the Agreed Value as provisionally declared, and the Amount Insured shall be adjusted proportionately; provided that the Assured shall pay premium at the full Policy rate on the total construction cost of the Vessel of this insurance, but the Underwriters shall in no event be liable under this Policy for more than the Agreed Value provisionally declared plus said percentage thereof.

The “Escalation” clause allows the “Amount Insured” to increase by a predetermined percentage in the event that the cost of construction materials or labor increases, or if the design or specifications change resulting in higher costs. There are some other important considerations with respect to the “Escalation” clause:

- Increase in other policy limits
All of the policy limits listed in this section are cross-referenced to the “Agreed Value” and/or “Amount Insured Hereunder”. Therefore, any increase in the “Agreed Value” (whether through the “Escalation” clause or other agreement) will automatically increase these other limits.

- Reinsurance

When setting lines on a builder’s risk placement, it is imperative that underwriters use the “Agreed Value” plus any potential escalation in their calculations. If the “Agreed Value” is the sole basis for choosing the line size, any escalation may increase the “Agreed Value” beyond an underwriter’s treaty capacity or the limits of any facultative reinsurance that may have been purchased at the commencement of the risk.

- In the event that the completed contract value is increased under the “Escalation” clause, additional premiums should be charged retroactively to inception.

The five limits provided under the American Institute Builder’s Risk coverage form are as follows:

1. Total Loss of the vessel

The “Total Loss” clause of the American Institute Builder’s Risks Clauses (lines 84 to 94) is self explanatory. Here it is in its entirety:

**TOTAL LOSS**

There shall be no recovery for a constructive Total loss under this Policy unless the expense of recovering and restoring the Vessel (as insured hereunder) to the stage of her construction at time of loss would exceed her value at such stage of construction (which value shall be taken to be the cost of labor actually expended by the Builder in the construction of the Vessel and material actually incorporated therein at the time of loss, including accrued overhead and profit on such labor and material, not exceeding the Agreed Value). In making this determination only expenses incurred or to be incurred by reason of a single accident or a sequence of damages arising from the same accident shall be taken into account, but expenses incurred prior to tender of abandonment shall not be considered if such are to be claimed separately under the Sue and Labor clause.

No claim for Total loss (actual or constructive) shall exceed this Policy’s proportion of the value of the Vessel at the stage of her construction at time of loss as computed in the manner set forth in the preceding paragraph. This Policy shall also pay its proportion of any physical loss or damage to material insured hereunder and not yet installed in the Vessel.

In no case shall the Underwriters be liable for unrepaired damage in addition to a subsequent Total Loss sustained during the period covered by this Policy, or any extension thereof.

While similar in practice to the “Total Loss” clause in the American Institute Hull Clauses and other hull forms, the builder’s risk form’s clause limits recovery to the “value of the Vessel at the stage of her construction at time of loss...”. An insured cannot recover the full “Agreed Value” unless the vessel was fully constructed at the time of loss.
2. Failure to Launch

This is a very brief and straightforward clause (lines 68 to 69), as follows:

**FAILURE TO LAUNCH**

In case of failure to launch, the Underwriters shall bear, up to the Amount Insured Hereunder, their proportion of all necessary expenses incurred in completing launch.

During the risk analysis process, the underwriter should determine what launch method is used by the insured. Failure to launch is a fairly common occurrence, with some launch methods being more hazardous than others. This will be discussed further elsewhere in this paper.

3. Sue and Labor

The “Sue and Labor” clause in the Builder’s Risk form is exactly the same as is contained in the American Institute Hull Clauses. This clause covers expenses borne by the insured to avert or minimize a loss that would otherwise be covered by the policy.

4. Collision Liability*

As with the “Sue and Labor” clause, the “Collision Liability” clause in the Builder’s Risk form is the same as appears in the Hull Clauses, and covers liability of the insured resulting from collision with another vessel. Coverage for “Collision Liability” under the Builder’s Risk clauses applies during trials and delivery trips.

5. Protection & Indemnity*

The P&I section of the Builder’s Risk form provides coverage for most of the exposures typically covered by standard P&I policies. While it lists the specific liabilities covered in the section, it also provides coverage for other liabilities not named in the form but that would be recoverable under the SP-23 P&I form. The form protects the insured from claims resulting from loss of life or bodily injury of persons (other than employees of the insured) while the vessel is still being constructed on land or in a dry dock or graving dock.

During sea trials or delivery trips, there is frequently a Jones Act crew exposure, as some of the insured’s employees are typically on board. The intent of the phrase “(other than an employee of an Assured under this Policy)” in line 147 of the form is to exclude crew coverage, but the reversion to the SP-23 form likely negates this exclusion. The “MARAD P&I” section of Addendum #1, described below, appropriately addresses this exposure and removes any uncertainty as to whether or not coverage exists.
*To reduce the number and amount of limits, the Collision Liability and Protection & Indemnity are frequently sub-limited to $1,000,000 and then scheduled in the excess marine liabilities or bumbershoot policy.

Deductibles

**Basic** – The basic deductible in a builder’s risk policy is frequently determined by applying a fixed percentage to the limit and expressing this as a dollar amount.

**Windstorm / Flood** – With the potential for storms to impact states on the Gulf and East Coasts, underwriters frequently implement increased deductibles for these perils. These deductibles are typically a multiple of the occurrence deductible. This increase allows for some absorption of damages across multiple vessels.

**Additional Terms and Conditions Available By Endorsement**

**Pre-keel clauses (included in Appendix)**

- Covers pre-keel materials “belonging to and destined for each vessel named in the policy…”.
- While the limit for this coverage is determined on a case-by-case basis, 10% of the insured value is frequently given as a pre-keel limit.
- Form allows for a monthly rate to be applied
- Includes an “Extended Strikes Clause” specifically addressing this exposure for pre-keel materials
- Important note - the words “destined for” mean that coverage for pre-keel materials can exist during transit from a third-party supplier to the insured’s facility

**Owner Furnished Equipment (OFE)**

Occasionally, the owner of the vessel to be built will provide some of the key components, i.e. engines, cranes, or other customized equipment. This can be added as a separate limit but the equipment should be scheduled separately from the hull itself within the policy.

Following is a typical “Owner Furnished Equipment” wording that is frequently used:
Owner-supplied machinery, equipment and appurtenances:

This policy also covers owner-supplied machinery, equipment and appurtenances at the Assured’s yard provided said machinery, equipment and appurtenances is destined for a vessel(s) insured or to be insured hereunder and provided each such risk is specially declared to this Company and included in the provisional contract price and premium paid thereon.

Coverage generally applies for equipment intended for the insured vessel while at the yard. Occasionally, underwriters may be asked to cover equipment away from the yard. This represents another aspect of the risk and needs to be underwritten separately. Underwriting considerations include location of the equipment (e.g. third-party warehouse) and corresponding security, fire protection, etc., and whether or not transit of the equipment is to be covered under this clause. If so, this can substantially change the nature of the risk.

Addendum #1

Some or all of the American Hull Insurance Syndicate’s Addendum 1 is frequently added to builder’s risk policies that use the American Institute Builder’s Risk Clauses as the basis of coverage. There are four separate clauses included in Addendum 1:

- Delivery Trip

  The clause provides a “held covered” for delivery of the vessel “from the port of construction to another port or place”, but coverage is subject to review of all pertinent underwriting information by underwriters and the agreement to additional terms, conditions and additional premium between the insured and underwriters.

- Strikes Riots

  In most respects, this clause is similar to the AIMU’s SR&CC clause typically used in conjunction with the American Institute Hull Clauses.

- MARAD P&I

  This clause is sometimes used to provide coverage for crew exposure on the insured vessel(s) while still excluding any liabilities under Longshore and Harbor Workers’ Compensation Act or a state workers compensation act. The wording amends the P&I section of the American Institute Builder’s Risk Clauses to cover injury to employees of the insured unless the injury is covered under any compensation act. It also allows underwriters to insert a limit for all employee injuries arising from a single occurrence.

- Pollution
The “Pollution” clause modifies the pollution exclusion in lines 161-166 of the Builder’s Risk form by providing a very limited coverage. This limited coverage does not diminish the insured’s need to purchase a separate pollution policy.

Addendum #2

An extremely important and potentially costly exposure faced by shipbuilders is the possibility that their work will need to be redone or “made good” because of faulty design, faulty workmanship, or the use of defective materials. Historically, insurers have not been willing to cover the cost of making good the faulty design, faulty work or defective materials but have covered resulting damage caused by a covered peril ensuing from the faulty design, work, or materials.

While the Builder’s Risk form contains an exclusion for losses caused by design defects other than ensuing damage, the exclusion is not as comprehensive as many underwriters would like. The desire for a broader exclusion led to the development of the American Hull Insurance Syndicate Addendum #2. The clause excludes faulty design, faulty workmanship, and the installation or use of improper or defective materials. Ensuing damage that is not otherwise excluded is still covered.

Addendum #2 is a standard part of most builder’s risk policies, and underwriters should exercise extreme caution when considering a risk without this wording.

Coverage Types

As mentioned earlier, many builder’s risk policies are written on an “open cover” basis. Generally there are two types of builder’s risk open covers, “risks attaching” and “losses occurring”.

In a “risks attaching” policy, the vessels are covered when declared during the policy term until all vessels declared during the policy term have been delivered. Coverage can go on for many years for some types of vessels and the underwriter will collect monthly premium until the final vessel is delivered.

In a “losses occurring” policy the underwriter is responsible for all losses that occur during the policy term for the vessels which are on risk, regardless of when they started construction. On a losses occurring cover, the underwriter must decide whether the expected premium collected for the term is enough to cover the expected exposure for the term. At the end of the annual policy, the underwriter is off risk and has no obligation to cover the vessels which are under construction unless the policy is renewed. If the policy is not renewed, the underwriter is “cut off” from further exposure and premium.
Rating Methods

NOTE: This paper does not include any information or suggestion as to the setting of rates for particular risks.

There are two standard ways to apply a rate on open builder’s risk covers. The most common is on completed contract price (CCP). Under this method, the underwriter knows exactly how much premium he will collect for the term of the contract by applying a monthly rate to the CCP. Periodically (quarterly reporting is common), the underwriter receives a report with the CCP for each vessel(s) under construction and the corresponding premium regardless of the stage of the build. The monthly rate is always applied to the full value of the vessel as expressed in the contract.

Under the “values at risk” method (sometimes referred to as “values exposed”) the rate is applied to the values reported by the shipyard. This rating method creates some additional concerns that underwriters need to be aware of. First, there is reliance on an employee at the yard to make an accurate estimate of the values exposed each month. This has the potential to create an incentive to under-report values. The savings on premium can be substantial. Another pitfall is determining how much higher the monthly rate needs to be in these situations to render to the same premium as under the CCP approach.

Here’s an example:

A vessel with a completed contract price of $10,000,000 is to be constructed over a twelve month period a monthly rate of .0575% on CCP. The total premium collected by the end of the build would be as follows:

\[
\begin{align*}
&\$10,000,000 \times .0575\% = \$5,750 \\
&\$5,750 \times 12 \text{ months} = \$69,000 \\
&\text{Total Premium} = \$69,000 \text{ for the 12 month period}.
\end{align*}
\]

To generate the same premium under a “values at risk” rating approach, a higher rate would be needed. Unless the insured provides the underwriter with the value build-up over the construction period, underwriters would have to assume a linear progression of values over time.

\[
\$10,000,000 / 12 = \$833,333 \text{ per month in value growth}
\]
**Monthly Premium Progression**

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</table>

Total monthly values reported = $64,999,978 (the sum of each month’s reported values)

To generate the $69,000 of monthly premium from the CCP example above, we would divide $69,000 by $64,999,978.

$69,000/$64,999,978 = .10615%

In summary, because the rating base is lower in the “values at risk” example, the per month rate required to yield the same premium as the CCP example (for the same risk) is much higher. In this example .0575% on CCP = .10615% on values at risk. The values at risk rate would be over 80% higher than the rate on CCP.

**Excess Builder’s Risk Covers and Compression**

After hurricanes Katrina, Rita and Wilma, many underwriters reduced their capacity in windstorm prone areas. When the builder’s risk demand picked up a few years later, there still was not ample capacity for the larger risks in these areas. Brokers were unable to increase builder’s risk per occurrence covers, so many utilized excess builder’s risk placements. Rather than increasing the per occurrence or per vessel limit, they placed excess vessel limit, excess per occurrence limit, or both depending on the account. The new placement might look something like this:

$40,000,000 excess of $40,000,000 primary
Placed by broker and price usually unknown to primary participants

$40,000,000 Per Vessel and Per Occurrence
Instead of an $80,000,000 builders risk placement, it has been split into a $40,000,000 primary and $40,000,000 excess. The excess placement poses a few problems, the main one being compression. The placement on an excess layer makes it difficult to determine if the primary underwriter’s rate is adequate to reflect the increased exposure. In the example above, the entire primary layer would be wiped out with a 50% value loss. With increased vertical exposure, the expected losses on the primary layer will increase. It is important to ensure that you are charging enough premium to compensate for the increase in exposure and expected losses.

As an example, assume the $40,000,000 limit was written at a monthly rate of .045% before the placement of the excess layer. How can an underwriter determine an appropriate monthly rate for the first $40,000,000 layer now that there is $40,000,000 layer on top? While there are differing schools of thought on this, here’s an illustration of one commonly used method, continuing with the above scenario.

After thoroughly reviewing the exposure, an underwriter determines that the full $80,000,000 should go for .035% per month due to the new higher $80,000,000 occurrence limit. With that established, the pricing for the $40,000,000 excess layer needs to be calculated. The underwriter’s internal guidelines, rating tool and judgment generate a rate of .01% per month. Using that number, the underwriter can now extrapolate to figure out the rate needed for the primary:

Full stretch - $80,000,000 *.035% = $28,000 per month

Excess Layer - $40,000,000 xs $40,000,000 @ .01% = $4,000 per month

With these numbers established, the underwriter now subtracts the top layer premium from the total premium.

$28,000 - $4,000 = $24,000

$24,000/$40,000,000 = .06% per month.

So in this example, .06% is the required rate per month, based on the assumptions above, for the $40,000,000 primary layer.

Underwriters should also be aware of how the rate is applied in layered programs. Generally speaking, the rate is applied to values exposed in each respective layer. This information is key when determining the appropriate pricing for any particular layer.
Refit / Conversion Risks

This paper has discussed builder’s risk coverage solely in the context of new construction, but other projects can also be covered by a builder’s risk placement. Two examples are “refits” (or “retrofits”) and “conversions”, and both warrant a brief description.

A vessel “refit” typically involves removing obsolete equipment from a vessel and replacing it with new components. The need for a vessel refit is typically driven by the older equipment no longer being cost effective to maintain or the introduction of new requirements (new emission standards, for example) which necessitate updated equipment.

A vessel “conversion” materially changes a vessel’s operation and typically involves the installation of additional equipment and the replacement of other equipment. Examples of conversions would be the transition of supply vessel to a fishing vessel, or the lengthening of a container vessel by essentially cutting the vessel in half and inserting a new mid-body.

Conversions and refits both require a high degree of engineering which can result in significant risks during the project, and a comprehensive loss prevention and loss control protocol (as discussed below) is a key part of effectively underwriting these exposures on a builder’s risk form.

Underwriters should also be aware of how these exposures differ from new construction as respects rating. A builder’s risk policy for a new vessel typically gives underwriters the benefit of building up a premium reserve during the early stages of construction when the risk level is generally lower. In conversion and refit risks, however, the vessel usually has a substantial “going-in” value, and the underwriter has significant risk at inception without the benefit of a premium build-up during the early stages. This should be factored into the underwriting and rating of the risk, along with the construction period, which is usually shorter than that of a new vessel.

Loss Control / Loss Prevention

JH 143 – Origin and use on builder’s risk:

Prior to 2003 there was no formal Shipyard Risk Assessment format for builder’s risk. In a 14 month period from October 2002 to January 2004, over US$700 million of claims passed to Underwriters on a book of business of about USD 125,000,000. The losses, all shipyard fires, occurred to the following vessels:

- Diamond Princess
- Costa Fortuna
- Westerdam
Following these large losses, the Joint Hull Committee (representing the interests of those who write marine hull business in the London market), in consultation with The Salvage Association developed the JH143 Warranty Survey. This survey is now mandatory for shipyards insured or reinsured in the London market and is slowly expanding into other markets.

Through physical inspection, the shipyard is graded on a number of key risk areas devised to ensure uniformity. Standard practice in many companies stipulates the requirement for a recent (< 6 months) JH 143 Shipyard Risk Assessment survey. The Survey is designed to enable underwriters to assess the risk levels at a shipyard and decide what level of insurance cover they can provide. The Warranty has a punitive nature, effectively forcing yards to improve or face losing cover. Yards have to focus on loss prevention and quality assurance issues and comply with recommendations from Independent Surveyors to minimize or mitigate the risk. The purpose of the survey is to make apparent to insurers that the yard has taken the necessary steps to justify the continuance of their policies.

The original guidelines are taken from the JH 143 form developed in 2003 and updated guideline dated June 15, 2009.

**JH 143 Elements**

The shipyard risk assessment shall include review and assessment of the actual implementation of the safety management, quality assurance, and quality control of shipyard systems and procedures. It shall include but not be limited to:

- Geographical and Environmental Risks
- General Site Condition
- Processes and Procedures
- Quality Assurance / Quality Control of the production process
- General Housekeeping
- Management of Subcontractors
- Permit to Work Systems
- Emergency Response Plan
- Fire Fighting Capability
- Shipyard Equipment
- Atmospheric Monitoring & Control of Industrial Gases
- Launching & Sea Trials
- Site Safety
- Casualty History

The warranty survey companies have developed their own formats, each incorporating these standards. Overall, the information above should either be available in the application or
developed through a warranty survey of the shipyard. Taking into account that most of the shipyards are smaller and more focused, the underwriter can work with internal risk engineering or a marine warranty survey company to develop an appropriate standard for the small to mid-sized shipyard.

**Conclusion**

While this paper is by no means all-encompassing, it provides a good overview of builder’s risk exposures, underwriting considerations and suggested practices. Marine builder’s risk has historically been a profitable class of business, but a prudent underwriter must exercise strong technical skills and the effective use of loss control to establish and maintain a sound portfolio.

Please contact anyone on the hull committee if you have any questions.
Appendix
American Institute

BUILDERS RISK CLAUSES

(FEB. 8, 1979)

To be attached to and form a part of Policy No. __________________________ of the __________________________, hereinafter referred to as the Assured.

The terms and conditions of the following clauses are to be regarded as substituted for those of the policy form to which they are attached, the latter being hereby waived, except provisions required by law to be inserted in the Policy. All captions are inserted only for purposes of reference and shall not be used to interpret the clauses to which they apply.

**ASSURED**

This Policy insures __________________________, hereinafter referred to as the Assured, to the extent of __________________________, including materials, plans, patterns and moulds, staging, scaffolding and similar temporary construction (to the extent only that the cost of any of the foregoing is included in the Agreed Value) incorporated in or allocated to Hull No. __________________________, Type __________________________, building at the yard of the Builder at __________________________, on ______________, and any and all additional terms of cover and any additional premium or order.

If claim is made under this Policy by anyone other than the Owner of the Vessel, such person shall not be entitled to recover to a greater extent than would the Owner, had claims been made by the Owner as an Assured named in this Policy.

Underwriters waive any right of subrogation against affiliated, subsidiary or interrelated companies of the Assured, provided that such waiver shall not apply in the event of a collision between the Vessel and any vessel owned, demise chartered or otherwise controlled by an of the aforesaid companies, or with respect to any loss, damage or expense against which such companies are insured.

**LOSS PAYEE**

Loss, if any, payable to __________________________, or order.

Provided, however, Underwriters shall pay claims to others as set forth in the Collision Liability or the Protection and Indemnity clauses and may make direct payment to persons providing security for the release of the Vessel in Salvage cases.

**SUBJECT MATTER**

The Subject Matter of this insurance (herein referred to as the Vessel) is the hull, launches, lifeboats, rafts, furniture, bunkers, stores, tackle, fittings, equipment, apparatus, machinery, boilers, refrigeration machinery, insulation, motor generators and other electrical machinery, ordnance, munitions, and appurtenances, including materials, plans, patterns and moulds, staging, scaffolding and similar temporary construction (to the extent only that the cost of any of the foregoing is included in the Agreed Value) incorporated in or allocated to Hull No. __________________________, Type __________________________, building at the yard of the Builder at __________________________, on ______________.

In the event of any material change in the specifications or design of the Vessel from that originally represented to the Underwriters, such as change is held covered provided (a) notice is given to the Underwriters immediately followed such change, and (b) any amended terms of cover and any additional premium required by the Underwriters are agreed to by the Assured.

This Policy insures only while the Vessel (ashore or afloat) is at the building location named above; while in transit within the port of construction to __________________________; and from such location; and while on trial trips (including proceeding to and returning from the trial course), as often as required, within a distance by water of 250 nautical miles of the port of construction, or held covered at an additional premium to be named by the Underwriters in the event of a deviation of voyage, provided prompt notice thereof is given to the Underwriters.

**DURATION OF RISK**

From the __________________________ day of ______________, to the __________________________ day of ______________, time, time, 19 19 24 25

or until delivery, if delivered at an earlier date.

In the event of delivery not being effected by the aforesaid expiration date, this Policy may be extended at __________________________ per month, provided prompt notice be given to the Underwriters but not for more than __________________________ months from the date of original attachment, but held covered for an additional period of time provided prompt notice is given to the Underwriters and any amended terms of cover and any additional premium required by the Underwriters are agreed to by the Assured; provided, however, in no case shall this Policy extend beyond delivery of the Vessel.

In event of payment by the Underwriters for Total Loss of the Vessel in this Policy shall thereupon automatically terminate.

**PREMIUM**

The Underwriters to be paid in consideration of this insurance __________________________, Dollars being at the rate of __________________________ per cent., which premium shall be due on attachment.

**RETURNS OF PREMIUM**

In event of delivery prior to the expiration date, or any extension thereof, to return pro rata daily of __________________________ cents per cent. net per month.

**AGREED VALUE**

The Vessel, for so much as concerns the Assured, by agreement between the Assured and the Underwriters in this Policy, is and shall be valued at the completed contract price plus the value of materials and equipment destined for the Vessel but not included in such price. If no amount is stated for such materials and equipment, Underwriters shall have no liability for any loss, damage or expense thereto or in connection therewith, and such materials and equipment shall not be deemed a part of the Vessel.
The Agreed Value is provisionally declared as $ .............................................., being the contract price of $ .........................................................., for materials and equipment destined for the Vessel but not included in the contract price.

ESCALATION

In the event of any increase or decrease in the cost of labor or materials, or in the event of any change in the specifications or design of the Vessel (not constituting a material change for purposes of the held covered provisions of the Subject Matter clause), the Agreed Value shall be adjusted accordingly, but any increase shall be limited to .................................................. per cent. of the Agreed Value as provisionally declared, and the Amount Insured shall be adjusted proportionately, provided that the Assured shall pay premium at the full Policy rate on the total construction cost of the Vessel of this insurance, but the Underwriters shall in no event be liable under this Policy for more than the Agreed Value provisionally declared plus said percentage thereof.

AMOUNT INSURED HEREUNDER

In the event of a claim becoming payable under this Policy, the Underwriters shall not be liable for a greater proportion thereof than the Amount Insured Hereunder, bears to the Agreed Value.

DEDUCTIBLE

Notwithstanding anything in this Policy to the contrary, there shall be deducted from the aggregate of all claims (including claims under the Surety, Labor, Collision Liability, and Protection and Indemnity clauses) arising out of each separate accident, the sum of $ .................................................., unless the accident results in a Total Loss of the Vessel in which case this clause shall not apply. A recovery from other interests, however, shall not operate to exclude claims under this Policy provided the aggregate of such claims arising out of one separate accident, if unreduced by such recovery, exceeds that sum. For purpose of this clause each accident shall be treated separately, but it is agreed that (a) a sequence of damages arising from the same accident shall be treated as due to that accident and (b) all heavy weather damage, or damage caused by contact with floating ice, which occurs during a single sea passage between two successive ports shall be treated as though due to one accident.

PART I – HULL SECTION

HULL RISKS

This Policy insures against all risks of physical loss or damage to the Vessel occurring during the currency of this Policy, except as hereinafter provided.

In the event that faulty design of any part or parts should cause physical loss of or damage to the Vessel, this insurance shall not cover the cost of expense of repairing, replacing or renewing such part or parts, nor any expenditure incurred by reason of betterment or alteration in design.

DELIBERATE DAMAGE (Pollution Hazard)

Subject to the terms and conditions of this Policy, this insurance also covers loss of or damage to the Vessel directly caused by governmental authorities acting for the public welfare to prevent or mitigate a pollution hazard, or threat thereof, resulting directly from damage to the Vessel for which the Underwriters are liable under this Policy, provided such act of governmental authorities has not resulted from want of due diligence by the Assured, the Owners, or Managers of the Vessel or any of them to prevent or mitigate such hazard or threat. Masters, Officers, Crew or Pilots are not to be considered Owners within the meaning of this clause should they hold shares in the Vessel.

FAILURE TO LAUNCH

In case of failure to launch, the Underwriters shall bear, up to the Amount Insured Hereunder, their proportion of all necessary expenses incurred in completing launch.

GENERAL AVERAGE AND SALVAGE

General Average and Salvage shall be payable as provided in the contract of affreightment, or failing such provision or there be no contract of affreightment, payable at the Assured’s election either in accordance with York-Antwerp Rules, 1950 or 1974 or with the laws and Usages of the Port of New York. Provided always that when an adjustment according to the laws and usages of the port of destination is properly demanded by the owners of the cargo, General Average shall be paid accordingly.

In the event of salvage, towage or other assistance being rendered to the Vessel by any vessel belonging in part or in whole to the same Owners or Charterers, the value of such services (without regard to the common ownership or control of the vessels) shall be ascertained by arbitration in the manner provided for under the Collision liability clause in this Policy, and the amount so awarded so far as applicable to the interest hereby insured shall constitute a charge under this Policy.

When the contributory value of the Vessel is greater than the Agreed Value herein, the liability of the Underwriters for General Average contribution (except in respect to amounts made good to the Vessel), or Salvage, shall not exceed that proportion of the total contribution due from the Vessel which the amount insured hereunder bears to the contributory value; and if, because of damage for which the Underwriters are liable as Particular Average, the value of the Vessel has been reduced for the purpose of contribution, the amount of such Particular Average damage recoverable under this Policy shall first be deducted from the Amount Insured Hereunder, and the Underwriters shall then be liable only for the proportion which such net amount bears to the contributory value.

TOTAL LOSS

There shall be no recovery for a constructive Total loss under this Policy unless the expense of recovering and restoring the Vessel (as insured hereunder) to the stage of her construction at time of loss would exceed her value at such stage of construction (which value shall be taken to be the amount expended by the Builder in the construction of the Vessel and material actually incorporated therein at the time of loss, including and profit on such labor and material, not exceeding the Agreed Value). In making this determination only expenses incurred or to be incurred by reason...
of a single accident or a sequence of damages arising from the same accident shall be taken into account, but expenses incurred prior to tender of abandonment shall not be considered if such are to be claimed separately under the Sue and labor clause.

No claim for Total loss (actual or constructive) shall exceed this Policy’s proportion of the value of the Vessel at the stage of her construction at time of loss as computed in the manner set forth in the preceding paragraph. This Policy shall also pay its proportion of any physical loss or damage material insured hereunder and not yet installed in the Vessel.

In no case shall the Underwriters be liable for un repaired damage in addition to a subsequent Total Loss sustained during the period covered by this Policy, or any extension thereof.

SUE AND LABOR

And in case of any loss or Misfortune, it shall be lawful and necessary for the Assured, their Factors, Servants and Assigns, to sue, labor and travel for, in and about the defense, safeguard and recovery of the Vessel, or any part thereof, without prejudice to this insurance, to the charges whereof the Underwriters will contribute their proportion as provided below. And it is expressly declared and agreed that no acts of the Underwriters or Assured in recovering, saving or preserving the Vessel shall be considered as a waiver or acceptance of abandonment.

In the event of expenditure under the Sue and labor clause, the Underwriters shall pay the proportion of such expenses that the Amount Insured Hereunder bears to the Agreed Value, or that the Amount Insured Hereunder (less loss and/or damage payable under this Policy) bears to the actual value of the salved property, whichever proportion shall be less; provided always that their liability for such expenses shall not exceed their proportionate part of the Agreed Value.

If claim for Total loss is admitted under this Policy and sue and labor expenses have been reasonably incurred in excess of any proceeds realized or recovered, the amount payable under this Policy will be the proportion of such excess that the Amount Insured Hereunder bears to the Agreed Value or to the sound value of the Vessel at the time of the accident, whichever value was greater; provided always that Underwriters’ liability for such expenses shall not exceed their proportionate part of the Agreed Value. The foregoing shall also apply to reasonably incurred in salving or attempting to salve the Vessel and other property to the extent that such expenses shall be regarded as having been incurred in respect of the Vessel.

PART II – LIABILITY SECTION

COLLISION LIABILITY

And it is further agreed that:

(a) if the Vessel shall come into collision with any other ship or vessel, and the Assured or the Surety in consequence of the Vessel being at fault shall become liable to pay and shall pay by way of damages to any other person or persons any sum or sums in respect of such collision, the Underwriters will pay the Assured or the Surety, whichever shall have paid, such proportion of such sum or sums so paid as their respective subscriptions hereto bear to the Agreed Value, provided always that their liability in respect to anyone such collision shall not exceed their proportionate part of the Agreed Value;

(b) in cases where, with the consent in writing of a majority (in amount) of Hull Underwriters, the liability of the Vessel has been contested, or proceedings have been taken to limit liability, the Underwriters will also pay a like proportion of the costs which the Assured shall thereby incur or be compelled to pay.

When both vessels are to blame, then, unless the liability of the owners or charterers of one or both such vessels becomes limited by law, claims under the Collision Liability clause shall be settled on the principle of Cross-Liabilities as if the owners or charterers of each vessel had been compelled to pay to the owners or charterers of the other of such vessels such one-half or other proportion of the latter’s damages as may have been properly allowed in ascertaining the balance or sum payable by or to the Assured in consequence of such collision.

The principles involved in this clause shall apply to the case where both vessels are the property, in part or in whole, of the same owners or charterers, all questions of responsibility and amount of liability as between the two vessels being left to the decision of a single Arbitrator, if the parties can agree upon a single Arbitrator, or failing such agreement, to the decision of Arbitrators, one to be appointed by the Assured and one to be appointed by the majority (in amount) of Hull Underwriters interested; the two Arbitrators chosen to choose a third Arbitrator before entering upon the reference, and the decision of such single Arbitrator, or of any two of such three Arbitrators, appointed as above, to be final and binding.

Provided always that this clause shall in no case extend to any sum which the Assured or the Surety may become liable to pay or shall pay in consequence of, or with respect to:

(a) removal or disposal of obstructions, wrecks or their cargoes under statutory powers or otherwise pursuant to law;
(b) injury to real or personal property of every description;
(c) the discharge, spillage, emission or leakage of oil, petroleum products, chemicals or other substances of any kind or description whatsoever;
(d) cargo or other property on or the engagements of the Vessel;
(e) loss of life, personal injury or illness.

Provided further that exclusions (b) and (c) above shall not apply to injury to vessels or property thereon except to the extent that such injury arises out of any action taken to avoid, minimize or remove any discharge, spillage, emission or leakage described in (c), above.

PROTECTION AND INDEMNITY

It is further agreed that if the Assured shall by reason of his interest in the Vessel, or the Surety in consequence of its undertaking, become liable to pay and shall pay any sum or sums in respect of any responsibility, claim, demand, damages, and/or expenses arising from or occasioned by any following matters or things during the currency of this Policy, that is to say:

(a) Loss of or damage to any other vessel or goods, merchandise, freight, or other things or interests whatsoever on board such other vessel, caused
or otherwise by the Vessel, insofar as the same is not covered by the Collision Liability clause in this Policy; but the foregoing shall not be construed
to cover liability in excess of the amount recoverable under the Collision liability clause;

(b) Loss of or damage to any goods, merchandise, freight or other things or interests whatsoever, other than as aforesaid, whether on board the Vessel or not, which may arise from any cause whatsoever; provided that this subparagraph (b) shall not include Builder's gear, material or cargo on the Vessel;

(c) Loss of or damage to any harbor, dock (graving or otherwise), slipway, way, gridiron, pontoon, pier, quay, jetty, stage, buoy, telegraphic cable or other fixed or movable thing whatsoever, or to any goods or property in or on the same, howsoever caused;

(d) Loss of life of, or bodily injury to, or illness of any person (other than an employee of an" Assured under this Policy);

(e) Payments made on account of life salvage;

(f) Any attempted or actual raising, removal or destruction of the wreck of the Vessel or the cargo thereof or any neglect or failure to raise, remove or destroy the same; however, for the purpose of this paragraph only, the Assured shall be deemed liable for expenses, after deducting any proceeds of the salvage, actually incurred by the Assured in removing the wreck of the Vessel from any place owned, leased or occupied by the Assured;

(g) Any sum or sums for which the Assured may become liable or incur from causes not hereinbefore specified, but which are recoverable under the Protection and Indemnity policy form known as Lazard No. SP 23;

the Underwriters will pay the Assured or the Surety such proportion of such sum or sums so paid, or which may be required to indemnify the Assured or the Surety for such loss, as their respective subscriptions bear to the Agreed Value. Where the liability of the Assured has been contested with the consent of a writing of a majority (in amount) of the Underwriters, the Underwriters shall have the option of naming the attorneys who will defend the Vessel and the Assured and will also pay a like proportion of the costs which the Assured thereby incur or be compelled to pay; provided that the total liability under all sections of these Protection and Indemnity clauses in respect of anyone accident or series of accidents arising out of the same event is limited to the Amount Insured Hereunder, plus costs as hereinabove provided.

Notwithstanding anything to the contrary contained in these Protection and Indemnity clauses, the Underwriters shall not be liable for nor indemnify the Assured against any sum(s) paid with respect to any loss, damage, cost, liability, expense, fine, or penalty of any kind or nature whatsoever, and whether statutory or otherwise, imposed on the Assured directly or indirectly in consequence of, or with respect to, the actual or potential discharge, spillage, or leakage upon or into the seas, waters, lands or air, of oil, fuel, cargo, petroleum products, chemicals or other substances of any kind or nature whatsoever. This exclusion, however, shall not apply to sums paid or payable, or liability of the Assured, for the physical loss of the property discharged, or lost, or leaked, provided that such sums are covered elsewhere under the terms and conditions of this Policy.

In the event that Sections 182 to 189, both inclusive, of U.S. Code, Title 46, or any existing law or laws determining or limiting liability of carriers, or any of them, shall, while this Policy is in force, be modified, amended or repealed, or the liabilities of shipowners or carriers be increased in any respect by legislative enactment, the Underwriters shall have the right to cancel the insurances afforded by these Pro-tection and Indemnity clauses upon giving thirty (30) days' written notice in the manner prescribed in the Non-Payment of Premium clause; in the event of such cancellation, Underwriters shall make an appropriate return of premium.

Underwriters' liability under these Protection and Indemnity clauses shall in no event exceed that which would be imposed on the Assured by law in the absence of contract.

PART III – GENERAL PROVISIONS

A. In the event of any accident or occurrence which could give rise to a claim under PART I of this Policy, prompt notice thereof shall be given to the Underwriters, and:

(a) where practicable, the Underwriters shall be advised prior to survey, so that they may appoint their own surveyor, if they so desire;

(b) the Underwriters shall be entitled to decide where the Vessel shall proceed for docking and/or repair (allowance to be made to the Assured for the actual additional expense of the voyage arising from compliance with the Underwriters' requirement);

(c) the Underwriters shall have the right of veto in connection with any repair firm proposed;

(d) the Underwriters may take tenders or may require in writing that tenders be taken for the repair of the Vessel, in which event, upon acceptance of a tender with the approval of the Underwriters, an allowance shall be made at the rate of 30 per cent. per annum on the amount insured, for each day or pro rata for part of a day, for time lost between the issuance of invitations to tender and the acceptance of a tender, to the extent that such time is lost solely as the result of tenders having been taken and provided the tender is accepted without delay after receipt of the Underwriters' approval;

(e) due credit shall be given against the allowances in (b) and (d) above for any amount recovered:

(1) in respect of fuel, stores, and wages and maintenance of the Master, Officers or Crew allowed in General or Particular Average;

(2) from third parties in respect of damages for detention and/or loss of profit and/or running expenses;

for the period covered by the allowances or any part thereof.

No claim shall be allowed in Particular Average for wages and maintenance of the Master, Officers or Crew, except when incurred solely for the removal of the Vessel from one port to another for average repairs or for trial trips made only to test average repairs, in which cases wages and maintenance will be allowed only when the Vessel is under way. This exclusion shall not apply to overtime or similar extraordinary payments to Officers or Crew members incurred in shifting the Vessel for tank cleaning or repairs or while specifically engaged in these activities, either in port or at sea.

General and Particular Average shall be payable without deduction, new for old.

The expense of sighting the bottom after stranding shall be paid, if reasonably incurred especially for that purpose, even if no damage be found.

No claim shall in any case be allowed in respect of scraping or painting the Vessel's bottom.
No claim for unrepaired damages shall be allowed, except to the extent that the aggregate damage insured against under the Policy and left unrepaired at the expiration thereof shall be demonstrated by the Assured to have diminished the actual market value of the Vessel on that date if undamaged.

B. In the event of any occurrence which may result in a loss, damage or expense for which the Underwriters are or may become liable under PART II of this Policy the Assured will give prompt notice thereof and forward to the Underwriters as soon as practicable after receipt thereof all communications, pleadings and other legal papers or documents relating to such occurrence.

No action shall lie against the Underwriters under PART II of this Policy for the recovery of any loss sustained by the Assured unless such action is brought against the Underwriters within one year after the final judgment or decree is entered in the litigation against the Assured, or in case the claim accrues without the entry of such final judgment or decree, unless such action is brought within one year from the date of the payment of such claim by the Assured.

NON-PAYMENT OF PREMIUM

In event of non-payment of premium 30 days after attachment, or of any additional premium due when this Policy may be cancelled by the Underwriters upon 10 days written or telegraphic notice sent to the Assured at his last known address or in care of the broker who negotiated this Policy, proportion of the premium, as shall have been earned up to the time of cancellation shall be payable. In the event of Total loss of the Vessel occurring prior to any cancellation or termination of this Policy full premium shall be considered earned.

WAR, STIKES AND OTHER EXCLUSIONS

The following conditions shall be paramount and shall supersede and nullify any contrary provisions of the Policy.

This Policy does not cover any loss, damage, liability or expense caused by, resulting from, or incurred as a consequence of:

(a) Capture, seizure, arrest, restraint or detainment, or any attempt thereat; or
(b) Any taking of the Vessel, by requisition or otherwise, whether in time of peace or war and whether lawful or otherwise; or
(c) Any mine, bomb or torpedo not carried as cargo on board the Vessel; or
(d) Any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force or matter; or
(e) Civil war, revolution, rebellion, insurrection, or civil strife arising therefrom, or piracy; or
(f) Strikes, lockouts, political or labor disturbances, civil commotions, riots, martial law, military or usurped power; or
(g) Malicious acts or vandalism, unless committed by the Master or Mariners and not excluded elsewhere under this War Strikes and Related Exclusions clause; or
(h) Hostilities or warlike operations (whether there be a declaration of war or not) but this subparagraph (h) not to exclude collision or contact with rockets or similar missiles, or with any fixed or floating object, or stranding, heavy weather, fire or explosion unless caused directly by a hostile act by or against a belligerent power which act is independent of the nature of the voyage or service which the Vessel concerned in the case of a collision, any other vessel involved therein, is performing. As used herein, "power" includes any authority maintaining naval, military or air force in association with a power; or
(i) Delay or disruption of any type whatsoever, including, but not limited to, loss of earnings or use of the Vessel, howsoever caused, except to the extent, if any, covered by the Collision liability or the Protection and Indemnity clauses of this Policy; or
(j) The firing or testing of any weapon of war from, by or on the Vessel. This exclusion is in addition to and is not to be considered in whole or part a substitution for or modification of any other exclusion herein set forth; or
(k) Damage to docks, slipways, tools or any other property of the shipyard not intended to be incorporated in the Vessel, except as covered in Lines 12 through 16, and any damage to slipways occurring during a successful launch; or
(l) Any nuclear incident, reaction, radiation or any radioactive contamination, whether controlled or uncontrolled, and whether the loss, damage, liability or expense be proximately or remotely caused thereby, or be in whole or in part caused by, contributed to, or aggravated by the risks and liabilities insured under this Policy, and whether based on the Assured's negligence or otherwise; or
(m) Placing the Vessel in jeopardy as an act or measure of war taken in the actual process of a military engagement, including embarking or disembarking troops or material of war in the immediate zone of such engagement; and any such loss, damage, liability or expense shall be excluded from this Policy without regard to whether the Assured's liability in respect thereof is based on negligence or otherwise, and whether in time of peace or war.
DELIVERY TRIP

Delivery trip of the Vessel from the port of construction to another port or place is held covered provided:

a) Prior notice is given the Underwriters;
b) Any amended terms of cover and any additional premium required by the Underwriters are agreed to by the Assured; and
c) The Vessel (tug and towing arrangements, if any) and weather conditions are approved prior to sailing by a surveyor appointed by the Underwriters.

In the event such trip is not completed prior to the natural expiry of this Policy, the Vessel shall be held covered until delivery provided any additional premium required by the Underwriters is agreed to by the Assured.

STRIKES RIOTS

Notwithstanding the provisions of the War, Strikes and Other Exclusions clause, Part I of this Policy insures against physical damage to or destruction of the Vessel directly caused by strikers, locked—out workmen or persons taking part in labor disturbances or riots or civil commotions or by vandalism or malicious acts, but excluding always any loss, damage or expense:

(1) arising in consequence of civil war, revolution, rebellion or insurrection, or civil strife arising therefrom,
(2) arising out of the use of any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force or matter,
(3) resulting from any nuclear incident, reaction, radiation or any radioactive contamination as more specifically described in Section (1) of the War, Strikes and Other Exclusions clause

ALSO excluding any claim for delay or disruption of any type whatsoever, including, but not limited to, loss of earnings or use of the Vessel, howsoever caused, except to the extent, if any, covered by the Collision Liability or the Protection and Indemnity clauses of this Policy.

The words “vandalism” and “malicious acts” as used above shall be construed to include willful or malicious physical injury to or destruction of the Vessel caused by acts committed by an agent of any Government, party or faction engaged in war, hostilities, or other warlike operations, provided such agent is acting secretly and not in connection with any operations of military or naval armed forces in the country where the Vessel is situated.

This Strikes Riots insurance may be cancelled by the Underwriters upon 15 days’ notice given in the manner prescribed in the Non-Payment of Premium clause. Underwriters agree, however, to reinstate said insurances subject to agreement with the Assured as to rate of premium and conditions.

MARAD P&I

Line 147 of the Protection and Indemnity clauses is amended to read:

“Loss of life of, or bodily injury to, or illness of, any person, excluding, however, liability under any Compensation Act to any employee of any Assured (other than a seaman) or in case of death to such employee’s beneficiaries or others.”

Lines 155 — 160 are amended to read:

“the Underwriters will pay the Assured or the Surety such proportion of such sum or sums so paid, or which may be required to indemnify the Assured or the Surety for such loss, as
their respective subscriptions bear to the Agreed Value, except that the total amount recoverable from the Underwriters for loss of life, bodily injury or illness of employees (including seamen) of the Assured, in respect of any one accident or series of accidents arising out of the same event shall not exceed that proportion of $1,000,000 which the Amount Insured Hereunder bears to the Agreed Value. Where the liability of the Assured has been contested with the consent in writing of a majority (in amount) of the Underwriters, the Underwriters shall have the option of naming the attorneys who will defend the Vessel and the Assured and will also pay a like proportion of the costs which the Assured shall thereby incur or be compelled to pay;

“Provided, however, that the insurance hereby afforded against loss of life, bodily injury or illness as aforesaid, shall attach only from the moment the Vessel becomes waterborne and shall terminate at the same time as the other insurances afforded by this Policy;

“And provided further, that the total liability of the Underwriters under all sections of these Protection and Indemnity clauses in respect of any one accident or series of accidents arising out of the same event is limited to the Amount Insured Hereunder, plus costs as hereinabove provided.”

POLLUTION

1. Irrespective of lines 161 — 166, the Protection and Indemnity clauses, subject to all of the Terms, Conditions, Warranties and Exclusions, expressed or implied, contained therein, are extended to cover any loss, damage, cost, liability or expense of any kind of nature whatsoever, as the Assured, as owner or operator of the Vessel, shall become liable to pay and shall pay, directly or indirectly, in consequence of or with respect to, the actual or potential discharge, emission, spillage or leakage upon or into the seas, waters, land, or air, of oil, fuel, cargo, petroleum products, chemicals or other substances of any kind or nature whatsoever; provided, however, that notwithstanding anything to the contrary contained in this addendum or in this Policy, the Underwriters shall not be liable to indemnify the Assured for:

   (A) any such loss, damage, cost, liability or expense unless proximately caused by fault on the part of the Assured, or

   (B) any loss, damage, cost, liability or expense incurred by or imposed on the Assured, or any other person, under the provisions of any federal, state or local legislation regulating or controlling the discharge, emission, spillage or leakage of oil or any other substance into navigable waters or elsewhere and/or the removal of or liability for such discharge, emission, spillage or leakage. The phrase “federal, state or local legislation” shall include laws or regulations of any foreign nation or political subdivision thereof, or of the District of Columbia, the Commonwealth of Puerto Rico, The Canal Zone, Guam, American Samoa, the Virgin Islands, and the Trust Territory of the Pacific Islands, or

   (C) any fine or penalty arising out of the actual or potential discharge, emission, spillage or leakage upon or into the seas, waters, land or air, of oil, petroleum products, chemicals or other substances of any kind or nature whatsoever.

The insurance afforded by Paragraph “1” hereof shall not increase the limit of the Underwriters’ liability under the Protection and Indemnity clauses of this Policy with respect to any one accident which limit shall be such proportion of sums paid by the Assured as Underwriters’ subscriptions bear to the Agreed Value of the Vessel not exceeding the Amount Insured Hereunder. A series of accidents arising from the same event shall be treated as due to one accident.

ALL OTHER TERMS, CONDITIONS, LIMITATIONS AND EXCLUSIONS REMAIN UNCHANGED.
HULL RISKS
Lines 61-62 of the attached policy are hereby deleted and the following substituted therefore:

Subject to the provisions of exclusion (B) of the following paragraph, in the event that faulty design of any part or parts should cause physical loss of or damage to the vessel this insurance shall not cover the cost or expense of repairing, replacing or renewing such part or parts, nor any expenditure incurred by reason of a betterment or alteration in the design. Faulty design shall include, but not be limited to, errors, omissions or deficiencies in plans, drawings, specifications or calculations.

Further, Underwriters shall not pay for any loss, damage or expense caused by or arising in consequence of:

(A) Faulty workmanship, or the installation or use of improper or defective materials, unless resulting in destruction, deformation, breaking, tearing, bursting, holing or cracking of the vessel, or any other like condition, and which loss, damage or expense is not otherwise excluded under the terms and conditions of the war, strikes and other exclusions clause of the attached policy; provided that Underwriters in no event shall respond for the cost or expense of repairing, replacing or renewing any improper or defective materials;

(B) Faulty production or assembly procedures even if constituting faulty design.

SUBROGATION
The following provision is added after line 205 of the attached policy:

In case of any agreement or act, past or future, by the Assured whereby any right or recovery of the Assured against any person or entity is released or lost to which these Underwriters on payment of loss would be entitled to subrogation but for such agreement or act, this insurance shall be vitiated to the extent that the right of subrogation of these Underwriters has been impaired thereby; and in such event the right of those Underwriters to retain or collect any premium paid or due hereunder shall be not affected.

ALL OTHER TERMS, CONDITIONS, LIMITATIONS AND EXCLUSIONS REMAIN UNCHANGED.
For attachment to policy No. ______________________ of ______________________

Issued to ________________________________________________________________

PRE-KEEL CLAUSES

The terms and conditions as set forth below shall supersede and nullify the clauses of the policy insofar as such clauses are inconsistent with the clauses set forth below.

1. This insurance covers only Pre-keel Materials belonging to and destined for each vessel named in the policy to which this form is attached. The said Pre-keel Materials for so much as concerns the Assured and the Underwriters are and shall be valued at the cost of materials plus the cost of labor and overhead as determined by the Assured’s records, which value shall be deemed the insured value of Pre-keel Materials for the purposes of this insurance.

2. The amount insured hereunder shall be in the sum of ______________________ per cent of the insured value.

3. The insured value of Pre-keel Materials insured under Pre-keel policies shall not exceed ______________________, and the liability of these Underwriters insuring an interest of per cent of such Pre-keel Materials shall have an over-all limit of liability not exceeding ______________________.

4. It is understood and agreed that the insured value of Pre-keel Materials insured hereunder intended for any one vessel shall not exceed ______________________, and the liability of these Underwriters insuring an interest of ______________________ per cent shall not exceed ______________________ on Pre-keel Materials intended for any one vessel.

5. It is understood and agreed that the liability hereunder on Pre-keel Materials stored in any one building shall not exceed ______________________ being ______________________ per cent of ______________________.

6. The Assured agrees to declare to these Underwriters 100% of the insured value of Pre-keel Materials at risk, as above defined.

7. The insured value at risk on Pre-keel Materials shall be declared to the Underwriters as follows:

   (A) Value at risk shall be shown as respects each individual vessel.

   (B) Value at risk at inception of this insurance shall be declared at once.

   (C) Value at risk at end of each calendar month thereafter shall be declared not later than 15 days immediately following.

   (D) Values at risk as of attachment of full form insurance shall be declared not later than 15 days after the end of the month in which the attachment occurs.

8. Premiums shall be payable monthly at the rate of ______________________ $ per month. The premium for each month shall be figured on the average of the values at risk at the end of the two immediately preceding months, as shown by the reports for these months, provided, however, that during any month in which insurance is changed from Pre-keel insurance to full form insurance, premiums on such vessel shall be payable on the average of the value as of the end of the previous month and the value at time of attachment of full form insurance, at pro-rata daily of the monthly rate.

9. Coverage hereunder on Pre-keel Materials destined for any particular vessel insured hereunder shall automatically terminate upon keel-laying of any such vessel and this insurance shall automatically terminate upon keel-laying of the last vessel insured hereunder.

EXTENDED STRIKES CLAUSE

In consideration of an additional premium at the rate of ½$ per month (included in the rate above), applied to the average values at risk as hereinbefore set forth, this insurance is extended to cover as per the following clauses:

“This insurance also covers damage to or destruction of the property insured directly caused by Strikers, Locked out Workmen or persons taking part in labor disturbances or riots or civil commotions or caused by vandalism, sabotage or malicious mischief, but excluding Civil War, Revolution, rebellion or insurrection or civil strife arising therefrom, and warranted free from any claim for delay, detention or loss of use.

Notwithstanding the exclusions in the F.C. & S. clause in the within policy ‘Vandalism’, ‘Sabotage’ and ‘Malicious Mischief’ as used herein shall be construed to include wilful or malicious physical injury to or destruction of the described property caused by acts committed by an agent of any Government, party or faction engaged in war, hostilities or
other warlike operations, provided such agent is acting secretly and not in connection with any operation of military or naval armed forces in the country where the described property is situated.”

The Underwriters have the right nevertheless to change the above rate at any time on 15 days’ written notice to the Assured: but the Assured shall have the option to cancel this endorsement as of the time when such change of rate would take effect, provided previous notice of such cancellation be given to the Underwriters. The rate may be changed as above notwithstanding Strikes, labor troubles or civil commotions, on board the vessel or elsewhere, may be threatened or actually exist either at the time when such notice is given or when it takes effect.
BUILDER’S RISK INSURANCE APPLICATION FORM

Section I – Production Agent/Broker:
Name, address, telephone, and fax number of Agent: ________________________________

________________________________________
Is Retail Agent licensed in the state of the Applicant? ☐ Yes ☐ No
Is this a new account to the Agent? ☐ Yes ☐ No
If “No”, how many years has account been held? ______

Section II – Applicant:
Applicant’s Name and Address: ________________________________

________________________________________
Web site address: ________________________________

Name of Principal(s) and/or Owner(s): ________________________________

Period of time Applicant has operated (or built) vessels: ________________________________

Period of time Applicant’s company named herein has been trading: ________________________________

Please list ALL previously owned and/or associated and/or affiliated maritime-related companies that Applicant has been involved in: ________________________________

Has the Applicant and/or affiliated companies been involved in Bankruptcy proceedings?
☐ Yes ☐ No If “Yes”, please specify details on separate sheet.

Please provide full details of the nature and extent of the Applicant’s operations, including those of any subsidiary and/or affiliated companies which Applicant is currently associated with:

______________________________________________________________________________

______________________________________________________________________________
Has the Applicant and/or affiliated companies been denied coverage or been subject to cancellation by Underwriters? ☐ Yes ☐ No  If “Yes”, please provide details: 


Please check one: ☐ Open Builder’s Risk Policy (Complete sections IV, V, VI, VII). ☐ Coverage on Single Hull (Complete sections III, V, VI, VII).

Section III: Details of Vessel to be insured:

Material of Hull: ___________________________  Dimensions: L: _____  B: _____

D: ___________________________

Powered by: ___________________________  Contract No.: ___________________________
Section III (Continued):

Date of Keel Laying: ___________________  Estimated Completion Date: ___________________

Complete Contract Price including taxes and all extra materials and equipment:  $______________________________

Name of mortgage holder: _______________  Amount of mortgage: $______________________________

Method of launching (side, end, etc.): ___________  Shipyard name: ___________________

Other descriptive information and sea trial details:

_____________________________________________________________________________________

_____________________________________________________________________________________

_____________________________________________________________________________________

Is vessel being built or fitted inside of a building?  □ No  □ Yes (please provide details in section V)

Section IV: Type of Vessels Built

(If more than one location is involved, provide the following information for each)

<table>
<thead>
<tr>
<th>Vessel Type</th>
<th>Materials (Check Below)</th>
<th>Number Built Annually</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Steel</td>
<td>Aluminum</td>
</tr>
<tr>
<td>Deck Barges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crane Barges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tank Barges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crewboats</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply Boats</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fishing Boats</td>
<td></td>
<td></td>
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<tr>
<td>Other (describe)</td>
<td></td>
<td></td>
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</tbody>
</table>

Please list gross receipts for each of past three years: $_________  $_________  $_____
Period of coverage required: ________________________________

_______

Limits requested: ________________________________

_______

How many vessels are expected to be under construction at any one time? Inside   Outside

_______    ______

What are the maximum values expected at any one time?__

_______    ______

What is the minimum distance between vessels? __

_______    ______

Section V: Yard Details:

Does construction or fitting take place inside building(s)?  □ No  □ Yes: If yes, please describe:

Building Material: Floors ______________  Roofs: __________  Walls: __________

No. of fire mains and hoses:__________  No. of standpipes: _______  Extinguishers: _____

Sprinkler System: _________________  Type of heating: __________________________


Section V (Continued):

Fire Protection Details:

Public fire department protection: □ City paid □ Volunteer

How many public fire hydrants?: ________________ Distance from yard: ________________

Public fire main size: ________________ Pressure: ________________

Is there private fire protection?: □ Yes □ No: If yes, please describe: ________________

Security Details:

How many watchmen are employed?: ____ How many each shift? ____ Watch clocks? □ Yes □ No

Is yard fenced in? □ Yes □ No  Floodlighted? □ Yes □ No  Guard at gate? □ Yes □ No

Other Yard Details:

Describe extent of any past flooding: ________________

Describe any other commercial activities in the yard: ________________

Is any work subcontracted? □ Yes □ No: If yes, please describe ________________

If answer to above is “yes”, are certificates of insurance required? □ Yes □ No

Section VI Loss Information:

Please list all reported incidents for the previous FIVE years. The list must include ALL previously closed claims, including those Closed Without Payment, ALL incidents whether an “estimate of loss” has been set or not and ALL other claims where an estimate has been set and/or payments made:
Additional sheets may be attached if more details are necessary.

<table>
<thead>
<tr>
<th>Claimant’s Name</th>
<th>Date of Loss</th>
<th>Vessel</th>
<th>Paid Amount</th>
<th>Reserved Amount</th>
<th>Open / Closed</th>
<th>Details of Loss</th>
</tr>
</thead>
<tbody>
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</table>
Section VII: Highest Coinsurance Fire Contents Rates (to be completed by agent)

Please indicate the highest coinsurance rates effective as of: ____________

<table>
<thead>
<tr>
<th>Premises</th>
<th>Building #1 Fire</th>
<th>Building #1 E.C.</th>
<th>Building #2 Fire</th>
<th>Building #2 E.C.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
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<tr>
<td>(b)</td>
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<tr>
<td>(c)</td>
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</tbody>
</table>

I/We hereby warrant that the information provided above is complete and accurate to the best of my/our knowledge and belief, and it is our understanding that Underwriters shall rely upon the information and representations listed above in determining the acceptability and rates and conditions of coverage. It is further understood that any misrepresentation or omission shall constitute grounds for immediate cancellation of coverage and denial of claims, if any.

It is further noted and understood that the Applicant is under a continuing obligation immediately to notify his Underwriters of any material alteration to the nature, extent or size of this operation ad described herein.

It is further understood that this application shall be attached to any form part of the policy, should one be issued.

Signed: Applicant: ________________________________

Title: ________________________________

Date: ________________________________
Works Cited