

Barriers to the Development of Marine Insurance Law

Yui Yip LAU, Manager

Ferguson International Freight Forwarders Limited

St. Paul Insurance Co. of Illinois vs. Great Lakes Turnings

Background

This case involves an insurer, St. Paul Insurance Co. of Illinois, and one of their assured, Great Lakes Turnings. During the insurance period Great Lakes Turnings misrepresented the number of voyages which were insured as five, instead of thirty seven, and the assured paid the premium on the basis of this misrepresentation.

In February 1990, Great Lakes Turnings chartered M/V Star 1 for the carriage of steel turnings from Louisiana to Spain. The resulting voyage was not reported to the St. Paul Insurance. At the discharge port, i.e., Spain, the vessel was damaged by fire. The Court held that Great Lakes Turnings cannot claim any damages since they violated the doctrine of utmost good faith in the insurance contract as they had not disclosed material information to St. Paul Insurance.

After the court justified the situation under long standing marine insurance law, the court held that it was proper for St Paul Insurance to void the insurance contract. Great Lakes Turnings did not have the right to claim any loss after the accident occurred.

Justification of the case

(1) Utmost Good Faith (MIA Section 17)

The concept of “Utmost Good Faith”, is a fundamental, basic requirement between any assured and insurer. As the assured did not disclose all materials information and misrepresented information to the insurer, the insurer can void the contract. During this case, the assured notified St. Paul Insurane that he had performed only five voyages and paid five voyages premium instead of paying thirty seven voyages premium. The insured’s objective was obviously to pay less insurance premiums. When MV STAR I was involved in a fire, the assured cannot get any damages as he hid the truth that he performed thirty seven voyages, including the one on this vessel. It clearly shows that the assured violated the principle of “Utmost Good Faith”.

(2) Disclosure by assured (MIA Section 18(1))

In this case, the assured did not report the voyage to the insurer, which is a material circumstance in the risk estimation. Different risk estimations are calculated under different situations. The assured non-disclose their material as they can predict risk and get the higher insurable interest. Thus, the insurer can void the contract under the MIO Section 17 and 18(1).

(3) Representation pending negotiation of contract (MIO Section 20(1))

In this case, from the insurer's point of view, the number of voyages is a material issue for the risk and premium estimation. The assured only represented that there were five voyages, instead of thirty seven voyages. In this way, the assured misrepresented the number of voyages to the insurer. Therefore, the insurer has the right to void the contract.

During this case, the court cited the insurance law of Illinois to determine the parties' rights. Illinois law requires that an insurer must have made a request for specific information, and the insurer receive a false reply before it is permitted to rescind a policy.

In this case, it clearly shows that the assured made a willful misrepresentation and failed to disclose material information to the insurer. The objective is obviously for the assured to pay less insurance premiums. Properly, the assured needed to pay a premium for thirty seven voyages. However, the assured noticed that he had made only five voyages and paid five voyages premium. As a result, the assured cannot make any claims due to the fact that MV STAR I had a fire in the cargo compartments since the assured did not provide any information on the vessel's name, the voyage, cargo, etc, to the insurer.

Apparently, this law shows that the insurer has better advantages and is being protected to a larger extent than the assured. But, it is the assured that has more knowledge and knows more details about the ship and its cargo. They should bear the responsibility to provide the detail and correct information to the insurer so that the insurer can determine the risk more accurately. So, the law of Illinois requires the assured to provide accurate information in order to balance the interest between insurer and assured.

Conclusion

In this case, the court based its decision on the law of Illinois S17, S18 (1), S20 (1) to determine which party bears the loss. It clearly shows that the assured had the intention of making misrepresentations and violated the duty of utmost good faith. The assured cannot recover any damages as a result of the accident. It is reasonable judgment and has no barriers of development in Marine Insurance.