

INLAND MARINE INSURANCE: Introduction (122-1)

*[Inland marine (IM) insurance protects against the financial consequences of loss of or damage to specified types of property. **The types of property covered include** property in transit, property of a movable ('floatable') nature, and property instrumental to transportation or communication.]*

EO 1. INLAND MARINE INSURANCE (IM) EVOLVED IN THREE STAGES:

1. Inland marine first appeared in the 1920s to describe policies developed by marine insurers to meet new insurance needs. **In the early 1900s**, states practiced a monoline approach to insurance regulation, limiting insurers to one line of business: life, fire, marine, *or* casualty. Marine insurers could write policies covering property *anywhere* in the world against *any* peril, using nonstandard forms and rates. Marine insurers developed IM policies as a result of the increased use of the rail system during World War I and the growth of the trucking industry after that war. The increased use of rail and truck transportation increased the need for insurance covering goods in transit. Marine insurers provided that coverage.
2. IM expanded into other classes of property as a result of the general increase in personal wealth after WWI. That increase in wealth prompted an increased need for insurance to cover jewelry, furs, and other precious items. IM insurers developed the **floaters** (policy that covers property that does *not* always remain in a fixed location) for jewelry, fine art, cameras, furs, and other items in response to that need. **IM insurers also developed floaters for commercial loss exposures**, such as bridges and tunnels, property sold under installment plans, building materials while in transport, and mobile equipment.
3. **The Inland Marine Underwriters Association (IMUA) was formed in 1931 to stabilize the growing IM industry by** controlling unfair business practices, developing uniform forms and clauses, *and* establishing rating methods where possible. **Today, the IMUA provides a forum for the discussion of general IM problems, acts as an advisor regarding legislation that could affect IM insurance, and cooperates with state insurance departments.**

EOs 2 + 3. **THE PURPOSE AND IMPACT OF THE NATIONWIDE MARINE DEFINITION: The Nationwide Marine Definition**, adopted in *1933* by the National Convention of Insurance Commissioners (**NCIC, later replaced by the National Association of Insurance Commissioners, the NAIC**), specified what could and could *not* be covered by marine insurance. The drafters of the Definition restricted covered property to property in transit or bearing some relation to transportation or communication.

The definition's purpose was to limit the insuring powers of marine insurers and to prevent them from taking business from fire and casualty insurers. The application of antitrust laws to the insurance industry in 1944 and the development of multi-line insurance around 1950 made the Nationwide Marine Definition obsolete. So, it was revised in 1953 to classify, rather than restrict, ocean marine business.

The Definition was revised again in 1976 to include inland marine business, including difference in conditions (**DIC**) policies, builders' risk policies, *and* electronic data processing (**EDP**) equipment policies.

The effect of the current, 1976 Nationwide Marine Definition is to help insurers properly classify IM premium and loss data and comply with rate and form filing regulations.

Simply, it prevents inland and ocean marine insurers from providing unregulated coverage for items or situations that ought to be subject to regulatory requirements.

[The opening paragraphs of the 1976 Nationwide Marine Definition state that the Definition does

1. ***not** list every coverage that can be classified as marine,*
2. ***not** guarantee that listed risks and coverages are always marine risks and coverages, **and***
3. ***not** restrict or limit the exercise of insuring powers.]*

[The six property categories listed in the 1976 Definition include imports; exports; domestic shipments; bridges, tunnels, and other instrumentalities of transportation and communication; personal property floater risks; and commercial property floater risks.]

EO 4. **FILED VERSUS NONFILED CLASSES:**

1. **Filed (controlled) classes** must be written according to filed forms, rules, and rates. Some states let insurers modify their rates through **consent-to-rate procedures**: The underwriter gets the insured's written consent to a rate or form change and files the consent with the state insurance department.
2. **Nonfiled (noncontrolled) classes** allow underwriters more flexibility to determine policy provisions and rates and let them respond better to customers' needs. Underwriters can use **judgment rating** on nonfiled classes to rate each risk individually, relying on the underwriter's experience and expertise. Nonfiled classes often require skilled adjusters to handle losses.

EO 5. **PRINCIPAL CLASSES OF COMMERCIAL IM BUSINESS:** Contractors' risk coverage is the largest class of commercial IM insurance. Other important classes include builders' risk, transit, motor truck cargo, difference in conditions, and electronic data processing equipment coverages.

PRINCIPAL CLASSES OF PERSONAL IM BUSINESS: Personal jewelry coverage is the largest class of personal IM insurance.

Other classes include bicycles, cameras, coin collections, farm equipment, fine arts, furs, golf equipment, livestock, musical instruments, personal effects, personal property, *and* stamp collections.

EO 6. **THE SCHEDULED PERSONAL PROPERTY ENDORSEMENT** avoids three limitations found under Coverage C (personal property) of the homeowners' policy:

1. low monetary limits on recovery,
2. coverage for named perils only, *and*
- [3. application of a deductible.]

The scheduled personal property endorsement is identical to the monoline IM policy called the **personal articles floater**. Both the endorsement and the floater cover specifically described jewelry, furs, cameras, musical instruments, silverware, golf equipment, fine arts, stamp collections, and coin collections for their full value, often without a deductible, on a special-form basis.

EO 7. **HOW IM REMEDIES RESTRICTIONS IN COMMERCIAL PROPERTY FORMS:**

1. **The ISO Building and Personal Property (BPP) Coverage Form *excludes* five types of property that can be covered under inland marine policies:**
 - a. bridges;
 - b. personal property while airborne or waterborne;
 - c. docks, piers, wharves, and docks;
 - d. vehicles and self-propelled machines operated *away from* the described premises; *and*
 - e. radio and television antennas.

The BPP does, however, cover some IM exposures, *but* for low sublimits.

2. **Commercial property causes-of-loss forms** exclude perils that can be covered under IM. **Even the special causes-of-loss form, which offers the broadest coverage,** imposes theft-related restrictions (eg, a \$2,500 limits on furs, jewelry, and patterns, dies, molds, and forms), fails to cover contractors' equipment against theft, and limits coverage for property in transit.

*[IM coverage may be attached to commercial package policies and businessowners' policies as coverage extensions. (**Businessowners' policies** combine commercial property and liability coverages with a limited number of coverage options.) IM coverage is also included in **output policies**, which combine most of the property and IM coverages organizations need.]*