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Question No. 4 Comment on the following statements: c) Open cover and Open policy are the same.

Solution: Open Cover and Open Policy are not the same. Differences between open cover and open policy can be understood by following:

Open Cover

Open cover is an insurance arrangement designed specifically to the need of those firms, which have substantial import export turnover and frequent transactions. Such firms are spared the inconvenience of negotiating insurance contracts every time the transaction is to be made. Main Features of an open cover arrangement are as follows:

1. Open cover is not an enforceable contract. Instead it is an agreement under which the insurance company would honour and accept declarations of shipment of cargos and issue stamped specific certificate of insurance against each declaration.
2. Under an open cover arrangement, agreement between the insured and the insurer is reached about the subject matter (e.g., goods) insured, packing conditions, voyages, risks covered, rates and other conditions of the cover. The insured can obtain insurance cover within these agreed conditions.
3. The validity period of an open cover is twelve months.
4. It is customary to make an open cover agreement subject to two limitation clauses – Par Bottom and Par Place clauses. The effect of these clauses is to limit the liability of the insurance company to an agreed amount. Thus, if the loss in an accident is more than this amount, the loss will be partly recoverable upto the agreed amount.
5. An open cover may be cancelled by either party by giving 30 days notice in writing.

Open Policy

Also known as Floating policy, it has much in common with the open cover. This policy benefits clients with substantial turnover and a large number of despatches. Thus, it covers a series of consignments with all stipulations of the open cover, except that:

1. Open policy is an enforceable contract of insurance and is hence, duly stamped; and

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2. Open policy is for an agreed amount, against which a series of consignments may be despatched and declared as a result of which the sum insured will gradually diminish by the amount of each declaration until it is finally exhausted.
3. Even though the open policy ceases on expiry of one year from the date of its issue, the sum insured is of paramount importance. Therefore, the sum insured may exhaust prior to the expiry of the policy.
4. Open policy is subject to cancellation by either party after giving 15 days notice of cancellation in writing.