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# ROLE OF MARINE INSURANCE ON MARINE TRADE GROWTH: A CRITIQUE OF LITERATURE

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## Abstract

**Purpose:** Marine insurance is a form of civil contract in which the insurer makes the promise, in exchange for the insurance payment, to the insured person in whose favor the contract was established to compensate them for any losses they may have had as a result of the occurrence of hazards or accidents. The goal of the study is to determine the role of marine insurance on marine trade growth.

**Methodology:** This was accomplished through the use of a desktop literature review. The use of Google Scholar was utilized in order to locate seminal references and journal articles that were pertinent to the investigation. Papers that were published no more than ten years prior were required to meet the inclusion requirements.

**Findings:** The field of marine insurance is associated with insuring cargo that is being transported by sea, air, road, or rail; with insuring ships of varying types and sizes, ranging from pleasure craft to oceangoing commercial vessels; and with insuring liabilities that are associated with the transportation of cargo. There is an increased likelihood of risks occurring everywhere in the world.

**Unique contribution to theory, practice and policy:** Since the performance outcome of marine insurance companies can have implications for the continued existence of shipping and other maritime businesses, the paper makes the recommendation that more specific policy interventions should be directed at the complete removal of impediments in the operating environment of marine insurance firms. In addition, policymakers should work on developing solutions that would, in some way, mitigate the adverse impact that insurance policies have on foreign trade.

**Keywords:** *marine insurance, marine trade growth.*

## INTRODUCTION

Marine insurance dates all the way back to when people first started trading. It began as a form of self-insurance, with merchants agreeing to carry a portion of one another's goods so that, in the case of a disaster, they would not lose all of their own cargo. The field of marine insurance is concerned with insuring cargo that is being transported by sea, air, road, or rail; with insuring ships of varying types and sizes, ranging from pleasure craft to oceangoing commercial vessels; and with insuring liabilities that are associated with the transportation of cargo. Threats are brought into the open and disseminated over the globe. Marine insurance is a type of civil contract in which the insurer agrees, in exchange for the insurance premium (which is a certain fee), to compensate the insured party (the person in whose favor the contract was made) for any losses they sustain as a result of the occurrence of any perils or mishaps that are covered by the policy (McFall et al., 2018).

According to the research that has been done, international shipping, which is driven by marine insurance services, is responsible for almost ninety percent of world trade. The marine insurance sector has had to broaden the scope of the risk coverage it provides as a direct result of the rise of global trade and the accompanying shipping services. For instance, there is marine risk coverage offered for arctic shipping, aquaculture farming, carbon shipping, offshore energy, cyberattacks, and maritime terrorism, amongst other things. When entering into a contract for marine insurance, the insurer is obligated to provide the insurer with information about the circumstances that are necessary for determining the level of risk and that are known or should be known to the insurer, as well as information that is requested by the insurer. This obligation applies to both the information about the circumstances and the information requested by the insurer (Jolliffe et al., 2021).

The resource constraints and environmental pressures that have been caused as a result of fast industrialization, urbanization, and globalization are slowly but surely beginning to emerge as a direct consequence of the expansion of the global economy in the 21st century. In this context, making use of the maritime economy is an essential and lucrative way to alleviate the paucity of land resources and the shrinking amount of space available for development. In addition to this, it has evolved into a favored region for the expansion of the global economy (Hu et al., 2019).

The ability to gain access to financial muscle is the fundamental driving force behind modern marine economic development. Global financial markets, as the driving force that is used to promote the expansion of the marine industry, have always played a significant role in various fields of marine economic development in various countries. This is because global financial markets are used to promote the growth of the marine industry (Su et al., 2021). For instance, the United States of America, Norway, and Singapore, along with other global maritime nations, have accomplished rapid development of the marine economy by vigorously promoting and injecting financial allocation, marine insurance, and the construction of the capital market. Other global maritime nations have also been successful in this endeavor (Gao et al., 2017).

The traditional marine industry has been going through a recession and then a revolution since the beginning of the 21st century. Emerging marine businesses that are also strategically important, such as biomedicine, comprehensive seawater usage, and marine renewable energy, have flourished and became the planned focus of these governments. As was just indicated, the growth of the maritime business is marked by the presence of certain features, including a significant demand for capital, an extended term of financing, and increased risks and returns (Su et al., 2021).

However, in order to turn modern maritime technology into actual production, the marine sector and the financial market need to be integrated in a way that is both efficient and productive. A country's ability to develop and maintain a strong financial infrastructure is an important factor in determining its ability to compete in the modern marine economy. When giving capital support for a maritime economy's development, however, there are still some impediments that cannot be overlooked because of the connection between risk attributes and development features. Many marine-related enterprises cannot always get the funding they need from regular financial services and this lack is limiting the expansion of the marine economy (Gao et al., 2017).

Although globalization presents benefits, it also presents several commercial (i.e., bankruptcy, insolvency, natural disasters, economic conditions, etc.) risks, which can have a significant impact on businesses. Cross-border trade and investment are propelled forward largely by the power of insurance. These risks are frequently hedged by a variety of private and public insurance providers. International trade, business, and commerce are supported by these institutions, which cover nearly all commercial and political risks. Consequently, it encourages commercial activity. Although long-distance trade involves some risk, marine insurance makes it easier for it to take place, which helps to boost the economy (Li, 2017).

In the beginning, people would sell their wares in their respective towns and meet together as a community. In time, they began selling their goods in neighboring communities. Selling this method is not only risky (i.e. damage, theft, or even the life of the trader), but it also doesn't allow them to reach a larger audience. Because of this, a new trend of using commissioned base agents has developed. No matter how carefully you load and unload your cargo, there are always hazards involved in getting your cargo to its final destination. Traders used a variety of strategies to protect themselves against the dangers of exporting. When a ship or truck got trapped in a sea storm, fire, pirate attack, or enemy attack, they would send their products on multiple vessels instead of sending everything on one to avoid entire cargo loss. This was not a smart practice owing to the length of time and effort required, though. Trade/business risk was the primary motivation for the development of insurance, which was first used to transfer risk (Mundy, 2001). When it comes to international trading, marine insurance is a need (Petersson, 2010). According to King (2008), the forefathers employed sea/marine (Mutuum) loans commenda contract and bill of trades to limit risk in medieval times. Marine insurance's nearest substitutes, the commenda contract and sea loans.

**Statement of the Problem**

It is anticipated that marine insurance will boost the expansion of marine trade in a country. In point of fact, however, the level of management for marine insurance is quite poor. Because the ineffective marine insurance management is caused in part by the strategic approach taken by management at insurance companies, and because this has an effect on the many stakeholders, it is necessary to find a solution to this problem. Managers are required to have adequate and effective risk management measures in place in order to reduce the likelihood that the capital will exceed the criteria they have established. As a consequence of this, the managers of the firm need to have methods for monitoring and projecting positions, as well as adequate credit subsidies, in order to provide the most effective risk management by enterprise segments and individuals. Policy holders, investors, financial analysts, researchers, and anyone who have an interest in examining the role of marine insurance on the expansion of marine trade will find the conclusions of this study to be of considerable value.

## LITERATURE REVIEW

### Moral Hazard Theory

This idea has been put to use in a significant amount of different ways within the discipline of economics. One party is more willing to take risks because, according to this argument, other parties in other circumstances will pay the costs that are connected with those risks. This situation may arise if one party makes changes to its behavior in a way that is detrimental to the interests of another group that is actively engaging in financial or economic transactions (Krugman, 2009). According to the theory, moral hazard occurs when there is an information gap between the parties involved in a financial transaction and those who are responsible for paying for the consequences of the risk that was taken on by one party. In other words, the parties involved in the transaction do not have the same level of knowledge as those who are responsible for paying for the consequences. According to economist Paul Krugman, the phenomenon known as "moral hazard" occurs when one group decides how and when to take risks because another group will be liable for assessing the costs of those risks.

### Empirical Review

An empirical study was carried out by La and Gong-woo (2005) on the factors by which Korean trading companies select insurance conditions when signing an OMI contract. These factors include the insurance premium rate, the nature or type of cargo, and the transport section. The study examined how the aforementioned factors influenced the perils covered, the warranty, and the covered loss. The empirical study of the causes and effects of OMI choices that was conducted by Lee BongSang (2008) revealed that the selection of insurance conditions varied depending on the size of the import–export enterprise, the transaction period, the degree to which information was used, the degree to which authority was delegated, the amount of work experience possessed by the person in charge, the level of work knowledge possessed by the person in charge, and the degree to which an emphasis was placed on the reduction of transaction costs in the import–export enterprise.

Nwokoro (2013) analyzes the effects of marine insurance on Nigeria's maritime export trade from 1984 to 2006. The study covers the period of time from 1984 to 2006. The scope of the study was expanded to include other nations around the world that have trade partnerships with Nigeria, but the primary focus was on Nigeria, where the general consensus is that insurance does not make a positive contribution to the financial well-being of the population. Nigerian insurance market, CBN, National Bureau of Statistics (NBS), Insurance Department of Finance and Economic Development, and Nigerian Re-insurance Corporation (NRC), Lagos did research for this study. It was determined after collecting, collecting, and analyzing the premiums that accrued to the marine Departments of insurance companies during the period under review, that marine insurance did not have a significant impact but did have some impact on the level of maritime export trade in Nigeria during the period under study. The study recognizes the need for ship-owners to create a protecting and indemnity (P) club in the African region in order to relieve them of the impacts of those risks that are not recoverable from the ordinary Marine Insurance Policy.

Din, Mughal, and Farooq (2013) conducted a research study with the purpose of investigating the long-term and short-term relationship between marine and general insurance, trade openness, and economic growth in Pakistan for the period 1982 to 2009. The study covered the years 1982 to 2009 and aimed to investigate the relationship between these factors. In this investigation, the ARDL and VECM tests are used to investigate the long-term and short-term relationships between the variables that are being analyzed. On the other hand, the OLS and Granger Causality tests are utilized to investigate the impact that marine insurance has on trade openness and the direction of the relationship, respectively. The findings indicate that there is a favorable association that occurs over the long run between general insurance and the expansion of the economy. On the other hand, openness to trade has a detrimental impact on economic growth over the longer term. In a similar vein, maritime insurance has a strong link with trade openness, but in the long run, this relationship has a detrimental effect on trade openness, and the nature of this relationship is such that it is bidirectional. Another significant element that is having a detrimental effect on Pakistan's commercial activity was investigated in this study. Policymakers ought to work on devising solutions that would, in some way, mitigate the adverse impact that insurance policy has on foreign commerce.

Jung and Lim (2021) conducted research on the status quo bias in ocean marine insurance and its implications for Korean trade as part of their study. This study bridges the gap between the theory of behavioral insurance, specifically status quo bias (SQB), and the practice of ocean marine insurance (OMI) in Korea through the utilization of statistics gathered from ocean marine insurance (OMI), international emails, focus-group interviews, and surveys. OMI is the oldest and most worldwide kind of business insurance; the contractual forms of OMI were devised in the UK in 1906 as the Institute Cargo Clauses and amended in 1963, 1982, and 2009. They were able to demonstrate the presence of SQB in the OMI of Korea by utilizing Korean statistics that were collected between the years 2009 and 2018, email correspondence with specialists located in the UK, Germany, and Japan, focus-group interviews with Korean OMI underwriters, an in-depth

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interview with one underwriter, and a survey of 15 OMI insureds (company representatives). They discover that Korean foreign traders rely on OMI contracts of an older type that were formed in 1963, but other industrialized countries utilize OMI contracts of a newer type that were produced in 2009. They show that the behavior of insurers has little to do with rational profit maximization and is instead driven by irrational bias with a straightforward loss ratio analysis during the years 2009-2018. This is because insurers forego the more profitable contracts that are provided by the new clauses in favor of keeping the old clauses. This high SQB among Korean exporters, importers, bankers, or insurers was validated in our interviews and survey, and it is suggested by the market's persistent addiction to older types of contracts.

Financial elements of marine economic growth: From the perspective of coastal provinces and regions in China was the subject of a study that was carried out by Su et al. (2021). Using a bootstrap panel causality analysis, this study explores the causal relationship between China's financial development and marine economic growth. The analysis focuses on China. There are discernible regional disparities in the pattern of interaction between these two variables. This is primarily attributable to the varied nature of the structures within the marine sector, as well as the policies of the government and the quality of the financial markets. The development of the financial sector typically has an impact on the expansion of the marine economy, particularly when the Granger causality model is applied to the relationship between the two variables. This is especially true in the eastern marine economic circle. The developed financial system of the region enables maritime industries to make full use of the available financial resources, which is favourable to the expansion of the marine sector's economy. However, the expansion of the maritime economy does not have a huge impact on financial development, and the size of that expansion is primarily determined by policies implemented by the government. The findings of the eastern marine economic circle provide credence to the hypothesis that there is a "supply-leading" link connecting the expansion of the banking sector and the expansion of the marine economy. The "demand-following" link, on the other hand, is not developed in the majority of the provinces. As a result, conducting this research will be helpful in accelerating the expansion of the marine economy, particularly with regard to the part that financial development must play and the emphasis placed on achieving the objective of constructing a maritime nation that is robust.

Marine insurance businesses in nineteenth-century Greek port cities were the subject of a study that was conducted by Gekas (2008). This sector was deemed "most advantageous to commerce." This study investigates the emergence of a novel type of entrepreneurial activity, the marine insurance sector, in the Ionian Islands during the period of British rule (1815–1864) and compares it with the insurance sector of other Greek port towns in order to provide an illustration of capital accumulation and investment in the Greek economy during the nineteenth century. The amount of capital spent, the structural organization of the insurance businesses, and the unique entrepreneurial tactics that were implemented are the primary subjects that are investigated over the course of the study. The diverse institutional frameworks, business networks between ports in the case of the Patras and Ionian enterprises, and the ever-changing state of the global economy were the factors that defined the sector's viability and how long it would continue to exist in each municipality. In addition to demonstrating the process of the transmission of knowledge of business organization and the performance of an organic sector for capital accumulation, the case of the marine insurance industry can also demonstrate the process of instilling the 'capitalist spirit' - however ‘micro' - in Greek urban societies that were in the process of forming during the nineteenth century.

Onwuegbuchunam et al. (2017) conducted research on the efficiency of marine insurance companies in Nigeria and published their findings. The purpose of this study was to conduct an empirical investigation on the performance and operating environment of a selection of insurance companies that had marine risk portfolios. For the purpose of conducting an examination of these companies' operational performance, secondary data on their earned premium income, indemnity paid, management expenses, and total expenses representing performance indicators were collected throughout the course of a period spanning from 1974 to 2013. In addition, qualitative data were taken from the previously published material for the purpose of conducting a Strengths, Weaknesses, Opportunities, and Threats (SWOT) study in order to assess the characteristics of the operational environment in which insurance companies operate. The performance indices were subjected to testing using an Analysis of Variance (ANOVA) model, which revealed that the insurance companies made more money in premiums than they did in indemnities during the time period under investigation. However, the amount of their administration expenses was greater than the amount of indemnification paid. In terms of the issues that are confronting the companies, the SWOT analysis found that there is a preponderance of poor-quality service delivery to insurance clients, consumer distrust, inadequate technical workforce, and an unfavorable macro-economic environment. It has been determined that there is a positive outlook for the growth of the industry as a result of the implementation of local content policy/cabotage shipping Acts and an improved risk management framework. Since the performance outcome of marine insurance companies can have implications for the continued existence of shipping and other maritime businesses, the paper makes the recommendation that more specific policy interventions should be directed at the complete removal of impediments in the operating environment of marine insurance firms.

Research was carried out by Li (2017) on the topic of Risk Management in Ship Finance: A Marine Insurance Perspective. This thesis combines a financial perspective, an insurance perspective, and a legal perspective in order to present innovative proposals concerning the function of marine insurance in ship finance. Insurance for marine risks is an essential risk management strategy that may be integrated into the overarching risk management process that ship financiers use. On the other hand, given its constraints and the amount of money it requires, this approach is not always the best one to take in a given circumstance. As a consequence of this, insurance gaps are found in order to aid financiers in maximizing their use of maritime insurance and to assist insurers in recognizing potential business possibilities. Marine insurance is a type of contract, and as such, it must be interpreted in accordance with the law in order to be valid. On the other hand, marine insurance is more of a contract than a guarantee; therefore, in the event that something goes wrong with the ship's financing package and there is a marine policy, it is not safe to assume that the policy represents cash in the bank. Things can go wrong with the policy; in addition to the legal risks related to claims made under the policy, the law itself may be a risk that needs to be considered. Marine insurance serves more purposes than just the transfer of risk when it comes to the context of ship financing. The reduction of capital expenses, the improvement of the liquidity of shipowners and shipbuilders, and the provision of peace of mind for ship financiers are some of the other functions that ship insurance can play. However, in order for such positions to be created and maintained, the insurance contracts must first be meticulously drafted, and then the legal risks must be managed in an appropriate manner. The goal all along has been to provide the law in its current iteration as of October 28, 2017.

## METHODOLOGY

The investigation utilized a desktop research approach. The term "desk research" refers to the collection of secondary data or information that does not need actual fieldwork. Desk research is essentially the process of gathering data from already existing resources. As a result, this method is frequently considered to be a low-cost technique in comparison to field research. The primary costs involved in desk research are the executive's time, telephone charges, and directories. As a result, the research relied on previous research, reports, and statistics that had been published. Through the use of online journals and the library, this secondary data may be accessible very quickly.

## RESULTS

The results were grouped into various research gap categories namely as knowledge and methodological gaps.

### Knowledge Gaps

Studies by La, Gong-woo (2005), Nwokoro (2013), Din, Mughal and Farooq (2013), Jung and Lim (2021), Su et al. (2021), Gekas (2008), Onwuegbuchunam et al. (2017) and Li, (2017) had knowledge gap. In addition, all the mentioned studies did not establish the role of Marine Insurance on marine trade growth. Therefore, the current study seeks to address these knowledge gaps.

### Methodology gaps

Studies by La, Gong-woo (2005), Nwokoro (2013), Din, Mughal and Farooq (2013), Jung and Lim (2021), Su et al. (2021), Gekas (2008), Onwuegbuchunam et al. (2017) and Li, (2017) had methodological gap. In addition, all the mentioned studies did not employ desktop review methodology. Therefore, the current study seeks to address these methodology gaps.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

The field of marine insurance is concerned with insuring cargo that is being transported by sea, air, road, or rail; with insuring ships of varying types and sizes, ranging from pleasure craft to oceangoing commercial vessels; and with insuring liabilities that are associated with the

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transportation of cargo. Threats are brought into the open and disseminated over the globe. The reduction of capital expenses, the improvement of the liquidity of shipowners and shipbuilders, and the provision of peace of mind for ship financiers are some of the additional functions that marine insurance performs. However, in order for such positions to be created and maintained, the insurance contracts must first be meticulously drafted, and then the legal risks must be meticulously controlled.

**Recommendations**

According to the findings of the study, shipowners in the African region require the formation of a protection and indemnity (P) club in order to lessen the impact of risks that are not covered by a regular marine insurance policy. In addition, those in charge of formulating public policy should think of ways to lessen the impact that unfavorable insurance regulations have on foreign commerce.

The paper makes the recommendation that more specific policy interventions should be directed at the complete removal of impediments in the operating environment of marine insurance firms because the performance outcome of these firms has implications on the viability of shipping and other maritime businesses that are related to shipping.

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