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650

To: Hong Kong Office.
From: Shanghai Office.
Subject: Insurance - Letters of Indemnity.

Mr. Don King, Editor of the "China Clipper," an insurance journal for the Far East, has approached this office in an endeavor to obtain information with regard to the practice of shippers giving letters of indemnity to shipping companies in return for clean bills of lading on shipments which show damage before they are loaded, which practice Mr. King states he has been given to understand is quite prevalent in Hong Kong. In investigating the matter, it would probably be inadvisable to approach Mr. King is an American citizen and his magazine is published in the interest of insurance companies operating out here and also in the interest of their home offices. We understand Mr. King's magazine is entirely backed by American interests. He is well known to this office and we have always extended to him and received from him the fullest cooperation.

The practice of shippers giving shipping companies letters of indemnity in return for clean bills of lading on cargo which shows apparent damage before it is loaded is by no means confined to this area of the world. Elsewhere, in cases where a shipment is to be made against a letter of credit which expires upon a certain day and cargo which shows apparent damage on the outside and which it would take a considerable length of time to examine or replace is given a clean bill of lading by the shipping company in return for a letter of indemnity from the shipper in order that the shipper may secure the prompt establishment of a letter of credit. Or again, in case the shipper desires to make a certain boat and cargo shows outward damage and the delay in examining or replacing it would be too great, the same practice is used. The A.F.I.A. representative once took this matter up with his home office.

office and obtained an opinion from them in which it was stated that cases of this nature which had occurred in America had in a couple of outstanding instances reached the law courts and the practice was held to be illegal and the shipping company was unable to collect on their letters of indemnity. As to the legality of the practice in this part of the world it is difficult to ascertain what the actual law on the matter is. However, such practice is detrimental to the interest of insurance companies, inasmuch as invariably companies will first make claims against insurance companies for damage rather than against the shipping company and doubtless in cases where the damage is small, in order to retain goodwill, etc., the insurance companies will make some sort of a compromise on damage for which they are in no way liable rather than carry the matter into a court of law.

As you know, in the Far East many agents of insurance companies are also shippers of merchandise, and they probably frequently indulge in practices which are detrimental to their insurance principals. It is with the view of bringing such practices to the attention of home offices and to endeavor to obtain the cooperation of insurance companies in this section of the world to stamp out such practices that Mr. King is desiring information on this subject. In investigating the matter, it would probably be inadvisable to approach any shipping company other than the Dollar Company, but Mr. King suggests that information be sought for with such insurance companies as the Union Insurance Society of Canton, the American Asiatic Underwriters, and the Commercial Union Assurance Company. It will probably be inadvisable to approach concerns such as Butterfield, Swire & Company or Jardine's who represent insurance companies but are also shippers.

Another practice which has come to the attention of this office through other sources than Mr. King, is that of insurance agents issuing policies on goods originating at Canton and being transshipped at Hong Kong. We understand that agents frequently give coverage from Canton to the final port of destination and that in many instances the goods are shipped by junk from Canton to Hong Kong and no extra premium is charged for the additional risk of junk shipments. One concern which took this matter up with their Hong Kong agent were told that the insurance does not actually apply until the goods were loaded on the ship in Hong Kong but that the policy was given to final destination in order that the shipper might satisfy the requirements of a letter of credit rather than bank documents. Investigation of this practice might also be worthwhile.

- 3 -

Any information which you are able to secure on the foregoing will be greatly appreciated.

Paul F. Kops
Assistant Trade Commissioner

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