Sea Diamond loss pushes first quarter insurance claims to over $430m

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The Sea Diamond loss in Greece is the latest big claim to hit the marine insurance market this year, writes Denzil Stuart.

In insurance terms, the sinking of the Cypriot-owned vessel off Santorini last week is a significant but not a huge loss in itself.

More importantly, it is the latest in a string of major losses to clobber hull and machinery underwriters at a time when pricing is flat and, in some cases, still showing pockets of weakness.

The cumulative situation is so bad, according to Simon Beale, a leading hull underwriter at Lloyd’s, that a rough estimate of major losses and claims during the first quarter of this year — including the Sea Diamond — puts the total at over $430m.

“This is more than double the quantum of losses for the comparable period of 2006 when three big claims totalled about $170m,” Mr Beale said.

According to reports from Nicosia, Louis acquired the 21-year-old Sea Diamond in 2006 for $35m and it then had an upgrade. The group is said to have another 12 vessels, operating mainly in the Mediterranean.

HSBC, the London broker involved, declined to make any comment yesterday, but it is known that the Sea Diamond slip is led in the London market through Royal & SunAlliance, which is also thought to have the claims lead.

The 22,400 gt vessel has an insured hull and machinery value of $35m plus $15m for increased value and a further $5m for owner’s interests. The London market has 30% of the order, said market sources, with 40% or more in the French market through two company placings, 8.5% in Norway and the rest spread elsewhere with possibly some US exposure.

London hull underwriters have instructed the Salvage Association, BMT, to attend the casualty and assess the situation and two surveyors from the Piraeus office are on site.

As an illustration of how this year’s loss graph is climbing and to put the Sea Diamond loss in perspective, last month’s collision in Chinese waters between the MSC Joanna boxship and the dredger WD Fairway, the biggest of its kind in the world, has resulted in a claim of about $205m.

The West of England is the P&I club involved and there are likely to be substantial claims for liability and compensation arising from the 1,100-plus passengers and 391 crewmembers, the two passengers still missing and loss of personal effects. Then there will be the costs of pollution clean-up and salvage or wreck removal to sort out, depending upon developments, and any legal costs.

It has been reported that about two thirds of the passengers were American.

Greece is a signatory to the 1974 Athens Convention on passenger liability. Yet to come is the impact of revisions to the Athens Convention where the protocol of 2002, still under debate, will impose a right of direct action on
clubs for passenger liabilities.

It is significant that passenger vessels are regarded as the ship type with the highest risk profile to be covered under the mutual club system, as noted in HSBC’s annual P&I review.

The Sea Diamond sinking is also a wake-up call to hull underwriters and the clubs about the number of passengers who can be rapidly caught between a rock and a hard place. The logistics of evacuation is a huge issue, which the Santorini drama has brought sharply into focus again.

Royal Caribbean has already ordered two cruiseships capable of carrying 8,400 passengers and crew, illustrating the relentless trend towards ever-bigger vessels that is giving insurers nightmares. The Sea Diamond also confirms another trend which statistics prove: groundings and collisions leading to total loss have increased over the past five years, with an overall upward swing.

According to statistics produced by the International Union of Marine Underwriters, groundings accounted for nearly 25% of all serious losses between 2002 and 2006, exceeded only by machinery damage at nearly 35%.

Underwriters know that the probability of an incident becoming a major claim, as in this latest case, is bigger than before.

And the link between many groundings and human error is indisputable.