

Extra \$1bn on the cards for P&I cover

Excess of loss policy could benefit from increase, writes James Brewer

Tuesday December 19 2006

[Print Article](#)

A FURTHER \$1bn of cover may be added to the world's largest reinsurance contract, the excess of loss policy of the International Group of P&I Clubs, in February 2007.

The huge expansion of the \$2bn programme is under discussion by shipowner boards of the 13 clubs, but is expected to secure the required majority approval.

Lloyd's leads and dominates the huge contract, supplemented by company market reinsurers, and new reinsurers could be brought in to supply extra capacity.

The aim is to prevent a nightmare scenario claim blasting the finances of an individual club or the group at large.

Greek ship operators are reported to have been the inspiration for the planned extension. Many have been arguing that increased shipowner liability under the revised Athens Convention necessitates a separate provision that avoids 'subsidising' the giant risks arising from the scale of cruiseships.

Group leaders hope to capitalise on the availability of general reinsurance market capacity untouched by a benign 2006 hurricane season.

The extra \$1bn could be provided as a group reinsurance of 'overspill' liabilities, rather than as an additional layer of the excess of loss contract. An overspill call would be made on all clubs in the event of a claim going through the current \$2.05bn roof of the group reinsured figure.

The reinsurance programme, covering the majority of world shipping, applies to claims with a cost greater than \$50m, up to \$2.05bn, and there is a separate \$1bn oil pollution liabilities cover.

Although there is much concern among clubs about the level of claims generally, exposures rarely hit the externally reinsured contract, so the group will be arguing for similar terms during the renewal, and it appears confident of achieving that.

The \$2bn tranche consists of four layers, allowing for unlimited reinstatement of cover except for the higher layer of \$1.55bn up to \$2.05bn, where only one reinstatement would be permitted.

The group captive insurer, Bermuda-based Hydra, co-insures to the tune of 25% a layer up to \$550m.

Clubs hope that Hydra will take an increasing share of risk over the years, but it is unlikely there will be a radical change to the layer format in 2007, nor to the 2006 premium which was reported to be around \$240m.

Despite some unease about segregating ship types, the group is investigating a combined limit on cover for passenger and crew claims of \$3bn, including a sub-limit on passenger liabilities of \$2bn.

[close](#)

This article is copyright Informa UK Limited and is reproduced with permission. Reproduction, retrieval, copying or transmission of this article is not permitted without the publisher's prior consent. Informa UK Ltd does not guarantee the accuracy of the information contained in this article nor does it accept responsibility for errors or omissions or their consequences.