

Passengership liability cover faces major shake-up

Report shows this type of vessel is increasingly classed as high risk, writes James Brewer

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A SHAKE-UP is looming in passengership liability insurance as premiums and the danger of huge claims move relentlessly higher, a leading broker has suggested.

Reinsurers have already put the squeeze on the sector as perceptions of risk grow, said HSBC Insurance Brokers in its annual Protection and Indemnity Review.

The report illustrates how the insurance sector focus has switched to considering passengerships as the highest risk type, displacing the tanker sector which represented the top worry as recently as five years ago.

Reinsurance rates for passengerships entered in the International Group of P&I Clubs are now €80.06 per gt, compared with €67.99 for tankers.

In 2001 the rate for passengerships was €27.62 per gt, midway between the rates then applied to dry cargoships at the bottom end and crude oil tankers at the top.

"The radical change is more about the expectation of risk, fuelled in part by the anticipated impact of revisions to the Athens Convention, than the present reality," said HSBC.

The Athens Protocol 2002 is set to impose a right of direct action against P&I mutuals for passenger liabilities, and a liability on a ship for claims following terrorist action if some of the blame can be pinned for instance on failure of on board security systems.

Clubs would resist the new provisions if ship projects reached the size that would allow them to carry more than 5,400 passengers, as this would lead to potential claims beyond the protection of Group reinsurance, which is operative up to \$5.45bn.

"What is clear is that the operators of passengerships from the smallest ferry to the largest luxury liner can expect to continue to pay more for P&I in the future," said the broker.

"P&I club managers concerned about the potential future exposure will face some tough discussions with passenger sector members with reasonable claims records, facing 'unreasonable' increases."

Such owners could argue that until the proposed amendments to the Athens convention are ratified, they are the losers over a fundamental breach of the concept of mutuality, while owners of cargoships could argue that their position is being prejudiced if clubs continue to try to force mutuality between diverse ship types in the face of hugely increased potential exposure in the passenger sector.

Some clubs already avoid passengerships, but participate through the Group pooling arrangement.

"It is quite possible that ultimately a different answer will be necessary for this sector," said HSBC.

Operators of smaller ferries might conclude they are best served by covering their P&I risks, if they do not do so already, with an insurer that specialises in their sector, such as fixed premium British Marine or Navigators, or mutual Shipowners' Club, rather than with a "big ship" mutual, said the report.

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