Revisions to the Athens Convention are giving Greek owners the jitters.

Jim Mulrenan
London

Fresh concerns over the huge liabilities facing the protection-and-indemnity (P&I) clubs under the revised Athens Convention are threatening to unravel efforts to bring in much higher compensation for passenghership disasters.

Influential Greek shipowners, including some who run P&I club directors, are becoming increasingly worried about the threat that a wreck, which could run to several billion dollars, would mean for the future of P&I cover for cargoships.

A key concern is that the solvency of clubs could be threatened by clubs becoming direct insurers of passengers liabilities under the new Athens Convention.

Club directors fear they could even be caught up in litigation personally and be accused of failing to fulfill their fiduciary duty to the mutual and other shipowners.

The doomsday scenario is of a cruise ship or ferry catastrophe, with the loss of up to 3,600 passengers and 1,500 crew, and oil pollution and wreck-removal claims on top.

But the club that insured the ship will have to pay claims from the overspill levy to pay all passenger claims.

But there is no priority to such claims, with compensation normally paid on a first-come-first-served basis. Payouts to crew members, for oil pollution and for wreck removal, might mean the clubs are unable to raise sufficient funds from the overspill levy to pay all passenger claims.

But the club that insured the tragedy ship would not be able to rely on the fact that funds are exhausted as they will have given guarantees to governments that precisely these claims would be paid.

Of course, the threat of claims running to billions of dollars from a passenghership disaster is very low but there is an argument that the Athens protocol threatens at least the theoretical solvency of P&I clubs and exposes their directors to lawsuits.

A number of other issues are also shaping up to prove controversial as P&I club boards meet over the next few months ahead of a key October International Maritime Organisation (IMO) legal-committee meeting on implementation of the Athens protocol.

But the P&I clubs have a powerful incentive to try to make the Athens protocol workable as the European Commission will likely impose a solution of its own if the IMO convention fails.

Other issues include Royal Caribbean’s order earlier this year of the first of a new series of 5,400-passenger Project Genesis cruise ships that dramatically changes previous assumptions that the biggest vessels would be the same owner’s 3,600-passenger Freedom of the Seas class.

Greek shipowners who were instrumental in driving down the limit of P&I cover to $4.25bn some years ago are also concerned that the limit has now crept up to about $5.5bn.

The upper limit of P&I cover is calculated from property-damage liabilities under the 1976 Limitation Convention but this is tonnage-related and calculated in special drawing rights (SDRs). The growth of the world fleet and the relative strength of the US dollar against SDRs has produced the 10% rise.

There is also continuing concern about exactly how a scheme put forward by broker Marsh to separately guarantee terrorism risks will work as there is an absence of detailed information, including an indication of the likely cost.

Top UK mutual cashing in big
Jim Mulrenan
London

Free reserves at the North of England Club have risen by £25.7m following another successful year for one of the fastest-growing protection-and-indemnity (P&I) mutuals.

The Newcastle-based club made a small underwriting loss of £800,000 but there was a healthy investment gain of £26m— equivalent to a 5.86% return. The top-by-default reserve of free reserves rose from £142.3m to £168m, while net P&I assets rose £54m to £504m.

Chairman Bill Thomson of Scottish shipowner Fort Tankers says the board is very encouraged by the result, which shows the club has retained its position as one of the more financially strong and stable clubs.

The North of England covers some 2,850 vessels owned by 380 shipowning groups. P&I cover under the new Athens Convention is running to billions of dollars, would mean for the future of P&I mutuals, even if the US dollar strengthens against the pound.

The American Club, which is making a 30% cash call on the 2002-underwriting year, agreed to the move and, meanwhile, confirmed that its 2005 policy year is still showing a 15% deficit, although it hopes that this may reflect a conservatve estimate of incurred but not reported (IBNR) claims and a contribution from investment income, the situation should be much better when the account comes up to be closed in the third year.

Free Reserves at the American Club believe they have more than halved, to below £15m, confirming its position as by far the weakest of the P&I mutuals.

Chief executive Joe Hughes, however, argued in a recent circular that the club’s financial condition is more robust than it might appear and that neither the club nor its underwriters are complacent about the current circumstances.

Influential Greek shipowner, Konstantinos Ritsos stepped down as a director of the American Club at its annual meeting in New York last week but his older sister, Katia Ritsis, who is on the board of Enterprisers Shipping & Trading, was elected instead.

Paul Sa of Standard Shipping Inc was re-elected as chairman, without any other changes made to the board.

Nightmare claim worries owners

IFREMER Institute
Paris

The loss of the 5,400-passenger Project Genesis cruise ship currently under construction for American Cruise Line is an event with far-reaching implications for the shipping industry and the insurance market.

The P&I clubs have reinsurance guarantees to governments that they will meet the cost of any passenger claims up to the limit of about $5bn but this would leave the club with an even bigger bill.

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