Little progress in Carnival wrangle

Club managers say they will continue efforts to resolve concerns about the cruise giant’s $10m deductible.

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Efforts to find a solution to the controversy over the Carnival cruise group’s $10m deductible on each protection-and-indemnity (P&I) claim are proving elusive.

The issue is currently the most divisive matter in the International Group P&I cartel, with the wrangle set to continue as initial efforts to resolve the matter have failed.

A working party of senior club managers has been looking into the implications of the deductible but could not come up with proposals to resolve concerns about its size.

Club managers agreed at a recent meeting of the cartel that efforts to try to find a solution would continue.

Carnival reorganised its P&I cover at the February renewal, reportedly at a cost of $1m to $11m to get a reputed 75% reduction in its premium spend, arguably turning its P&I club into something akin to reinsurers as a huge proportion of claims are taken out of the P&I system.

The deal was agreed by the Steamship Mutual and Standard clubs but agreement could not be reached with the UK and West of England clubs previously used by Carnival, so the shipowner moved its huge 90-ship fleet.

The Carnival deal is likely to cost the other three to reorganise their mutuels of the International Group pool claims above $7m, have collective reinsurance arrangements and generally work closely together.

Under international conventions such as that covering bunkers spills and the new Athens convention on passenger death and injury that has yet to enter force, the P&I club provides guaranteed cover, issuing “blue cards” to this effect.

But if the shipowner is self-insuring most P&I risks, the clubs have been turned from liability underwriters into credit-risk insurers — in effect covering the risk that Carnival cannot or will not pay a claim.

Cargoship owners, while happy to be part of a P&I system that provides cover running to billions of dollars by mutualising the accident risk of almost the entire world fleet, are questioning the merit of being a credit insurer of a huge corporation that is more part of the tourism than shipping industry.

Over 250,000 passengers and crew including many illustrious and costly US citizens are on board Carnival’s ships at any one time, so despite the $10m deductible, the potential for a catastrophe that could lead to a meltdown of the P&I system as it has existed for over 100 years remains.

Carnival has a range of credit ratings from Standard & Poor’s and Moody’s, depending on the particular note, ranging from A- to BRR for the former and A2 to Ba1 for the latter.

The risk of an event such as a terrorist attack that would damage Carnival’s business and wreck its credit rating remains an issue for some P&I club managers.

The working party is looking at the general issue of high deductibles but as even the biggest cargoship owners retain a maximum of $1m of risk, the focus is likely on the Carnival deal.

Port authorities and others also rely on P&I club cover as an indication that claims will be properly handled and paid but huge deductibles mean most incidents would not be resolved by the club.

The reimbursement costs for cruise and passengerships is $6.650 per gross ton with Carnival’s total premium reputed to be not too far above this level.

Contributions to the International Group claims pool are partly based on premiums, so the Steamship Mutual and Standard contribution is reduced by the Carnival deal.

But International Group rules mean that the two clubs each have to take the standard $7m retention on each claim, so Carnival claims can only enter the pool at $17m. But there is a lack of statistical information to determine whether the contribution and exposure balance out.

Under the price-fixing arrange-ments of the International Group cartel, clubs are prohibited from undercutting each other at renewal.

So how did the expiry quotations of the UK and West of England club matches up to the deals offered by Steamship Mutual and the Standard clubs?

It appears that the two clubs provided an indicative quotation of the price they would want for a $10m deductible but as they did not want the deal to be on such a basis there is some concern about exactly what went on.

The key issue here is that if restrictions on price competition is the price of making the P&I system work, then it should be universal and not something that applies in most cases but can be avoided when it suits a big shipowner and particular clubs.

There is also some concern that big shipping groups such as AP Moller-Maersk, the Japanese lines or even the Fredriksson group might be tempted by the premium savings to be made from big deductibles, so Carnival would not be a special one-off case.

But even the biggest cargoship owners do not have costly claims on such a routine basis as a cruise line, so this is a less serious issue.

UK War Risks Club’s marginal loss results in 2% dent in reserves

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The United Kingdom Mutual War Risks Association has emerged relatively unscathed from the financial crisis and pirate attacks of the year.

The club made a marginal $306,000 ($493,000) loss but this resulted in only a 2% dent in reserves, which stood at $14.7m ($23.7m).

A decision to run down the equity portfolio held the investment loss to $737,000, with a £570,000 open position in VIX, partly excluding the bottom-line deficit.

The club raised annual premiums by about 3% at this year’s February renewal of cover but gave a 10% return of premium to renewing shipowners.

Like other war-risk mutuas, the UK War Risks Club charges premiums significantly below those available at Lloyd’s and from other commercial underwriters.

The basic annual tariff for a UK-linked worldwide-trading cargoship currently stands at just 0.004% of a vessel’s hull value with foreign vessels paying 0.0102%.

Cruiseships and ferries pay significantly more with the tariff set at 0.0327% and 0.0653%, respectively.

Rates for UK-linked vessels are cheaper as the government has a reinsurance scheme that provides coverage against the “uninsured’s enemies”, so reducing the exposure of the club.

The number of ships insured by the UK War Risks Club rose by 37 to 877 but the insured value soared to $22.7bn from $15.7bn.

The club’s annual report says that although more than 100 vessels were attacked in the Gulf of Aden through last year, the insurer had a clear run-off, in fact, it was notified of no new claims during the year.

The more than 90-year-old club is currently trying to internationalise and broaden membership to all owners earlier this year.

The club says international expansion will bring economies of scale and spreading risk.

Manager Thomas Miller also runs the UK protection and indemnity (P&I) Club, the TT Club and other mutuas, so they have connections with potential members.