

TW 12 Oct 07

Clubs reverse position on terrorist cover

Jim Mulrenan

London

Cover for the risk of a terrorist attack on a cruiseship or ferry is likely to be offered by the protection-and-indemnity (P&I) clubs in a dramatic reversal of their previous position.

Clubs in the International Group P&I cartel are leaning toward providing the \$500m of terrorism cover required under a revised Athens convention, which greatly increases compensation payable to passengers following a shipping disaster.

The International Group has previously ruled out providing this cover, prompting top insurance broker Marsh to put together a scheme to fill the gap.

However, the clubs are quietly consulting reinsurers and their shipowner directors about the merits of bringing what was previously seen as an unacceptable risk into their collective claims pool and be covered by the International Group's huge collective reinsurance programme.

The Marsh scheme would have cost owners of cruiseships and ferries up to \$0.10 per passenger per day but the marine liability-reinsurance market is relatively soft and the clubs hope to persuade the lead underwriters in the Lloyd's of London market to roll the risk into the main International Group programme at no additional cost.

The clubs, which insist they are indemnity insurers, appear to be generally softening their hostility to being accident insurers.

Under the traditional "pay to be paid" principle, a claimant has to sue a shipowner who then recovers the cost of compensation from his P&I club.

The clubs first modified this position years ago by issuing "blue cards" confirming tankers had pollution cover and appear ready to do the same for passenger risks including terrorism and war cover under the Athens convention as well as liabilities arising from bunker spills, wreck removal and accidents involving hazardous or noxious cargoes.

The Marsh concept was broadly similar to the Certificates of Financial Responsibility (Cofrs) system set to cover risks imposed under US oil-pollution legislation that the clubs were not willing to accept. The Cofrs system takes premium out of the market and the clubs did not want to see this principle extending into other areas where there was perceived difficulty in providing cover.

Passengership owners faced a dramatic increase in their P&I reinsurance costs at the February renewal and are paying over \$1.37 per gross tonne, as against under \$0.68 per gt for crude tankers, which pay the next highest rates.

Cover for passengership liabilities was restricted at the same renewal to \$2bn, with a further \$1bn of crew cover on top, but there are still concerns by cargo-ship owners that the P&I system is at risk for the sake of what is perceived to be a non-core sector that accounts for only a few percent of the tonnage afloat.