Passengership owners are facing a 60% to 100% rise in P&I reinsurance.

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The long, slow build-up to implementation of the 2002 protocol in the Athens Convention will hit shipowners in their pockets in 2007.

Details are only now being agreed but the cost of protection-and-indemnity (P&I) reinsurance for cruiseships and passengers ferries is set to rise by between $50 and $75 per gross ton, or 41.3% to 75.9%.

The much higher compensation limits for passengers who are killed or injured at sea under the Athens protocol have been the trigger for a radical rethink of the contribution paid by owners of different types of vessels.

But the dramatically higher premiums paid for passengerships are unlikely to be balanced by much or any reduction in the reinsurance costs of other vessels such as crude tankers, product tankers, containerships, bulkers or other “dry” ships.

A further controversial consequence of the Athens protocol is that cover for passenger claims is set to be cut to a maximum of $25m from the $51m currently available for most types of P&I claims.

Cover for a catastrophic personal injury claim — to a maximum of $80m when crew claims are included — is gradually emerging as an “immovable object”.

Owners of passengerships will therefore be paying significantly more for less. Real money will be paid out to cover the very remote risk of a catastrophe on a more tragic scale than that of the Titan- ic.

The P&I clubs that currently buy reinsurance up to just over $25m plan to buy an extra $2m of cover for next month’s review.

The decision to buy the extra cover is designed to reduce exposure on an overcapitalised market beyond the existing reinsurance that could well lead to cash calls on dispense worldwide.

It appears the additional reinsurance contributions collected from passengership owners will be used to pay for the $25m of overrun cover on the basis that claims at this level are most likely to arise from a disaster involving the loss of large numbers of people, although other catastrophic scenarios are possible such as the leakage of a tanker en route to a port or a ship expounding in a port city.

Protection for a restriction on cover for passenger claims has come from groupship owners, particularly those who have been concerned that the high compensation limits of the Athens protocol could put the entire P&I system at risk.

There is also a precedent in that cover for negligence claims have been limited for many years by the P&I clubs. The limit is currently $5m but was much lower in the past — for example, $400k at the time of the Exxon Valdez spill in the late 1980s.

The consequence of passengership operators being left with uninsured liabilities above $25m is hard to predict.

Will cruise and ferry groups carry this risk and, if not, balance sheets, seek to buy commercial-marine cargo cover or even set up an underwritten excess liability insurer?

Food for thought:

3,044-passenger Freedom of the Seas (built 2004) full Athens protocol claim for $3m. Will negligence reach $1.5m per person claim? A $1.5m claim would mean $4.5m in claims against one ship, which could drive the company into bankruptcy.

The Freedom of the Seas is the biggest cruise and ferry vessel to be constructed in recent years, so potential claims are correspondingly large. The top of the range has been held up under construction for months because of the high cost of reinsurance.

Owners of cruiseships and passenger ferries currently pay a P&I reinsurance out of $6,800 per passenger.

A $1.50 rise would mean the reinsurance cost of the $6,800 per passenger. Costs are likely to be relatively high.

The P&I clubs’ own retained premium for top and passengership owners will in due course also be a line of something under $10 per passenger due to the terrorism cover required by the Athens protocol.

The cruise market generates sufficient revenue for even a staggering increase in reinsurance costs to be absorbed and compa- nies such as Carnival Corp and Royal Caribbean have the resources to address such uninsured liabilities.

But those costs and liabilities will fall equally on the ferry mar- ket including operators of short crossings, where fare levels can be relatively low.

Big hike in store