Big hike in store

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

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SPIRALLING REINSURANCE COSTS: The 95,000-gt "Norwegian Pearl" (built 2006) passes a high-voltage line over the river Ems near Weener on its passage from Meyer Werft in Papenburg to the North Sea. Photo: Scanpix

The long, slow build-up to implementation of the 2002 protocol to the Athens Convention will hit shipowners in their pockets in just one month's time.

Details are only now being agreed but the cost of protection-and-indemnity (P&I) reinsurance cover for cruiseships and passenger ferries is set to rise by between $0.50 and $0.60 per gross ton, or 62.5% to 75%.

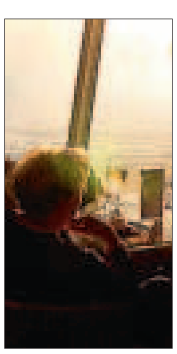
The much higher compensation limits for passengers who are killed or injured at sea under the Athens protocol have been the trigger for a radical rethink of the contribution paid by owners of different types of vessels.

But the dramatically higher premiums paid for passengerships are unlikely to be balanced by much or even any reduction in the reinsurance costs of other vessels such as crude tankers, products 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 $2bn from the $5.5bn currently available for most types of P&I claims. Cover for a catastrophic people tragedy falls to a maximum of $3bn when crew claims are included.

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 *Titanic*.

The P&I clubs that currently buy reinsurance up to just over $2bn plan to buy an extra $1bn of cover from next month's renewal. The decision to buy the extra cover is designed to reduce exposure to an overspill claim beyond the existing reinsurance that could well lead to cash calls on shipowners worldwide.



COCKTAIL TIME ON THE "COLOR FANTASY" Photo: Scanpix

It appears the additional reinsurance contributions collected from passengership owners will be used to pay for the $1bn of overspill 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 lethal contamination of a food cargo or a ship exploding in a port city.

Pressure for a restriction on cover for people claims has come from cargoship owners, particularly Greek, 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 oil-pollution claims have been limited for many years by the P&I clubs. The limit is currently $1bn but was much lower in the past — for example, $400m at the time of the *Exxon Valdez* spill in the late 1980s.

The consequences of passengership operators being left with uninsured liabilities above $2bn are hard to predict.

Will cruise and ferry groups carry this risk on their balance sheets, seek to buy commercial-market cover or even set up a specialised excess liability insurer?

For Royal Caribbean's 3,634-passenger *Freedom of the Seas* (built 2006), a full Athens protocol claim not involving negligence could reach $1.35bn, while if negligence was a factor, the amount could rise to over $2bn with the loss of a hull and crew claims adding well over $1bn to the total bill.

The same owner's *Project Genesis* newbuilding on order at Aker Yards for delivery in 2009 will be able to carry 5,400 passengers so the limits rise to $2bn and $3.2bn, respectively, with the hull value another $1bn and crew claims again on top.

Ferries could produce claims on almost the same scale with the 3,000-passenger *Color Fantasy* (built 2004) trading between Oslo and Kiel producing maximum no-fault and with-negligence passenger claims of $1.1bn and $1.8bn, respectively.

The *Freedom of the Seas* and *Color Fantasy* are the biggest cruise and ferry vessels afloat so potential claims are correspondingly at the top of the range but even for vessels of more conventional size the amounts are very large.

Owners of cruiseships and passenger ferries currently pay a P&I reinsurance cost of $0.8006 per gt. A $0.50 rise would raise the reinsurance costs of the 160,000-gt *Freedom of the Seas* by more than $77,000 per year to over $200,000 per year or of the 75,000-gt ferry *Color Fantasy* (built 2004) by over $37,000 per year to in excess of $97,000 per year. Costs for averagely sized cruiseships or ferries would be about half the above figures.

The P&I clubs' own retained premiums are on top and passengership owners will in due course also face a bill of something under $0.10 per passenger day to get the terrorism cover required by the Athens protocol.

The cruise market generates sufficient revenue for even a stinging increase in reinsurance costs to be absorbed and companies like Carnival Crop and Royal Caribbean have the resources to address such uninsured liabilities.

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