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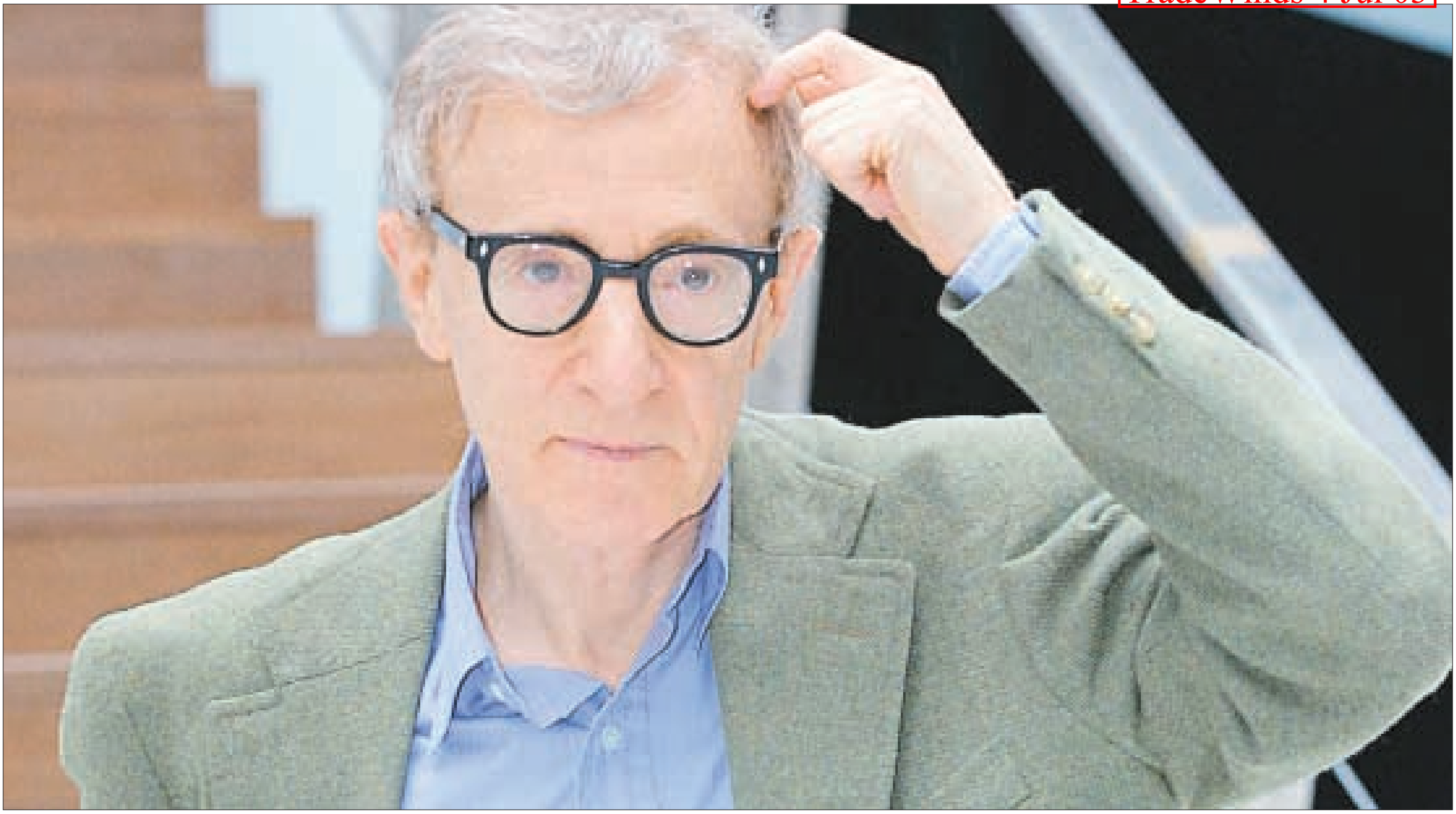

THORNY ISSUE: P&I club directors will have to do some Woody Allen-like inventive thinking to work out Athens Convention cruise and ferry cover. Photo: Scanpix

Passenger limit foxes P&I clubs

Insurance clubs are leaving the cruise and ferry issue for their directors to puzzle out.

Jim Mulrenan London

A confrontation over moves to raise compensation limits substantially for passengerships is looming following a meeting of top protection-and-indemnity (P&I) club managers this week.

Clubs are to seek the views of their shipowner directors on the extent to which cargoship owners should be expected to contribute to huge cruise or ferry claims.

The likely outcome will be to cut the current P&I cover for passengerships by more than a half, with a reduction to the $2bn limit of the clubs' reinsurance or possibly a much lower figure.

A revised Athens Convention approved by a diplomatic conference in London last year raises the maximum compensation payable for death or injury to each passenger to SDR 400,000 ($563,000), which would yield a payout of $1.75bn if a huge cruise vessel such as Royal Caribbean's 137,000-gt *Voyager of the Seas* (built 1999) were lost with its full complement of 3,114 guests.

There would also be considerable crew-related and other claims to pay. Nor is the loss of more than one vessel in a collision or other catastrophe inconceivable.

The clubs currently provide up to $4.25bn of cover but key shipowners, particularly Greek tanker and bulk-carrier operators, fear that the more-than-a-century-old P&I system is being put at risk by providing full cover for passengerships.

The high limits of the Athens Convention are not going away, so some inventive thinking on how to bridge the gap between future club cover and the revised limit appears to be urgently required.

The difficult question of how to provide Athens Convention cover has been occupying club managers, who have had a working party attempting to devise potential solutions for quite some time.

This week managers met to discuss the working party's report but predictably they decided to refer the policy decisions required to their owner directors.

TradeWinds understands the shipowners will be initially asked if there should be a lower limit for passengerships and if so, what that limit should be.

Despite the high value of the cruise and ferry fleet, the passenger sector is only a small part of the shipping industry, so there will be no surprise if the predominant view is that insurance should be restricted in a similar way to the $1bn limit put on oil-spill cover.

The few clubs that account for the bulk of the cruise fleet argue that it is better to provide adequate cover for owners because otherwise they will be forced to go out and buy additional insurance themselves.

The argument is that there is a quite narrow market for high-level marine-liability cover, therefore the cruise industry will be competing for the same capacity available for the club's collective reinsurance programme to the disadvantage of both.

Even if the cruise lines formed an Athens Convention top-up, this would still compete for the available reinsurance. However, other options may be available, such as securitising the risk through the issue of catastrophe bonds.

Club managers would like to have an outcome to the Athens Convention debate ahead of the next February renewal but as club boards do not meet frequently this may not be possible.