ROCKETING REINSURANCE COSTS: View of the "shopping street" on the "Color Fantasy"

Photo: Scanpix

TW 5 Jan 07

Passengerships face cover blow

Moves by the P&I clubs could see reinsurance costs rise dramatically.

Jim Mulrenan London

A massive increase in reinsurance costs is facing owners of cruiseships and passenger ferries as a result of moves by the protection-and-indemnity (P&I) clubs to reapportion the way costs are split between different types of vessels.

Passengership-reinsurance costs could rise by 60% or even double from next month's renewal, depending on the outcome of discussions underway between the 13 clubs in the International Group P&I cartel.

The plan to load a much higher proportion of the P&I clubs' collective reinsurance costs on to passenger vessels is already sparking controversy as the cruise and ferry sector's contribution has more than doubled in the past five years to the current figure of $0.8006 per gt, which is 18% more than crude tankers and well over double the rate paid by clean tankers or dry-cargo vessels.

It looks as though at least another $0.50 per gt will be imposed on passenger-vessel rates, although some of the clubs most focused on cargo shipping would like to see a $0.80-per-gt rise.

The hefty increase is the second recent blow for passenger shipping as cruiseships and ferries are already facing a major reduction in P&I cover. The maximum per-ship limit for passenger claims is set to fall to $2bn or $3bn when crew claims are included. This contrasts with a limit of cover of around $5.5bn for all other P&I risks, although there has long been a restriction on oil-pollution claims, at just over $1bn.

The rebalancing of reinsurance costs is taking place ahead of the introduction of the Athens protocol, which substantially raises the limits of liability for passenger death and injury claims. For the biggest vessels the Athens protocol limits will exceed $2bn with the figure rising to over $3bn for the largest newbuildings on order.

The worst-case passenger-shipping catastrophes could produce claims so big they would threaten the survival of the P&I system and this has made the sector unpopular with many cargoship owners, who view the cruise lines as tourism rather than shipping businesses.

However, the managers of the minority of clubs with big exposure to the passenger-shipping sector are strong supporters of the cruise industry, not least because of the massive premiums paid.

The move to load a bigger share of the reinsurance costs on to passengerships should benefit other categories of tonnage including tankers and dry-cargo vessels but the extent of any reduction in prospect is not yet clear.

Even a $0.50 rise would put up the P&I reinsurance costs of Royal Caribbean's 154,400-gt cruiseship *Freedom of the Seas* (built 2006) by more than $77,000 to over $200,000 a year or of Color Line's 75,000-gt ferry *Color Fantasy* (built 2004) by over $37,000 to in excess of $97,000. Costs for average-size cruiseships or ferries would be around half of 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.