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IF THE UNTHINKABLE SHOULD HAPPEN: loss of life and property would be overwhelming if, for instance, the "Voyager of the Seas" were to meet with disaster Photo:PRNewsFoto

Insurers wake up to potential cruise tragedy

The solution devised to keep ships trading to the US following the Oil Pollution Act may be adopted to cover the huge liabilities facing passenger-vessel owners under a revised Athens Convention.

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The marine-insurance market is rapidly waking up to the fact that it faces major challenges if a cruiseship tragedy should occur. Costs could run to billions of dollars.

Liability for loss of life or injury to each passenger is set to rise up to tenfold following a diplomatic conference called by the International Maritime Organisation (IMO) for October, making a solution quite urgent.

The revised Athens Convention is expected to set liability limits of at least (SDR — special drawing rights) 350,000 ($440,000) and maybe SDR 500,000 ($630,000) and additionally allow direct action against the protection-and-indemnity (P&I) clubs.

The potential passenger claims from the disastrous loss of a giant cruiseship such as the 3,700-passenger *Voyager of the Seas* could therefore run to more than $2.3bn, with larger ships in the future maybe hitting the $4.25bn limit of P&I cover.

The P&I clubs want to co-operate with IMO but are seriously concerned about the high level of exposure as well as the threat that passengers and their families will be able to take direct action against them rather than having to seek compensation via shipowners.

Although the revision of the Athens Convention has not yet sparked the stand-off seen in the early 1990s when the P&I clubs fought the introduction of Certificates of Financial Responsibility (COFRs) to cover US pollution liabilities, trouble is simmering beneath the surface.

An idea gaining support is to use the same sort of special-purpose financial guarantors set up to meet the COFR requirement as a cut-out between the clubs and passengers.

The Shipowners Insurance and Guarantee Co (Sigco) — a Bermuda-based operation set up by the UK, Gard and Steamship Mutual clubs to provide COFR cover — could even extend its remit to provide passengership guarantees.

The maximum liability of Sigco, however, currently runs to $396m if the Britannia Club failed to respond to a massive US spill caused by the 564,000-dwt *Jahre Viking*, which falls just within the $400m of reinsurance cover it purchases.

There are doubts that reinsurers would or could provide over $2bn of cover for a passengership tragedy even though they are insulated from the underlying risk. This is because they are not insuring the loss of the ship but the more remote risk of a catastrophe occurring in circumstances where a P&I club would not pay.

TradeWinds is told that a COFR-like solution is looking increasingly attractive as the P&I clubs try to overcome their worries about the new protocol in the Athens convention. A draft protocol that revises the 1974 Athens Convention exists but SDR values are currently left blank. Informal consultations are under way this week at IMO to try to fill in the limitation figures and address the key issue of how the cover will be provided.

Limits under the current convention are a derisory SDR 46,666 ($59,000) per passenger, although many countries have set much higher values under national legislation.

Top insurance brokers such as Marsh, Aon, Willis and Jardine Lloyd Thompson have been consulted as well as niche players such as BankServe — an expert on the interplay between the banking and insurance markets — as the search for a solution to the issue continues.