

P&I mutuals set to puff up already huge reinsurance cushion

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The huge reinsurance contract that stands behind the protection-and-indemnity (P&I) clubs' ability to offer more than \$5bn of cover is set to get even bigger.

The clubs are negotiating to buy another \$1bn of reinsurance to reduce the threat of an industry-wide overspill cash call following an unprecedented shipping catastrophe.

The clubs in the International Group cartel currently buy reinsurance that starts at \$50m and runs up to \$2.05bn, where the risk overflows the cover and falls back on the mutuals and their shipowner members.

The top limit of cover provided by the clubs has crept up from \$4.25bn to \$5.5bn as it is geared to the size of the world fleet and the strength of the dollar against the special drawing right (SDR).

The overflow exposure has stealthily grown from \$2.25bn to about \$3.5bn over recent years. The additional reinsurance to be bought from the February renew-

CLAIMS ON THE INTERNATIONAL GROUP POOL IN 2006

Ship	Type	Size	Incident	Estimate	P&I Club
Hyundai Fortune	Boxship	5,550 teu	Serious cargo fire	\$36m	Britannia
Alexandros T	Bulker	172,000 dwt	Catastrophic failure, loss of life	\$10m	London
Grigoroussa I	Tanker	97,000 dwt	Grounded Suez Canal	\$18m	West of England
Safmarine Agulhas	Boxship	1,706 teu	Broke up on rocks off South Africa	\$28m	West of England
Hyundai Independence	Boxship	5,551 teu	Dock damage	\$11.5m	North of England
Metin Akar	Tanker	30,000 dwt	Hit jetty	\$6m	Skuld
Queen of the North	Ferry	8,900 gt	Sank after hitting rocks	\$8m	Standard
Cougar Ace	Car carrier	55,300 gt	Developed 60-degree list	\$12.5m	Japan
Anna PC	Tanker	77,045 gt	Oil spill, Suez Canal	\$16m	London
Giant Step	Bulker	197,000 dwt	Fire, grounding, broke up, loss of life	\$37m	Japan
CMA CGM Aegean	Boxship	2,825 teu	Bunker spill at Odessa	\$34m	Swedish
Total				\$217m	

al will take the form of overspill cover and to a large extent restore the exposure to the sort of level originally intended.

The clubs are also looking at introducing sub-limits on people claims in preparation for the introduction of a new protocol to the Athens Convention that substantially raises their potential liability.

An overall per-ship limit for passenger claims of \$2bn is planned with the total limit, including crew, set at \$3bn. This potentially leaves owners of the largest vessels with liabilities not

covered by their P&I club, although it is currently unclear how these would be covered.

Previously reported plans to raise individual club retentions from \$6m to \$7m are, meanwhile, moving ahead.

But the overall expectation is

that the cost of the International Group's reinsurance cover will be little changed from the current year's figure of \$236m.

The revision of the reinsurance arrangements is taking place against a background of growing concern that P&I claims are esca-

lating as a result of hectic shipping activity, more valuable vessels and cargo and the general liability climate becoming more hostile.

There have been 11 relatively costly casualties that are expected to impact on the International Group's collective claims pool in the first nine months of the current underwriting year.

After owners and the clubs have paid their share, the pool exposure stands at a record estimated figure of \$132m and could rise to \$300m or more as claims develop. The major fire on the 5,550-teu boxship *Hyundai Fortune* (built 1996) has a P&I estimate of \$36m but could turn out to be much higher if shipowner liability for cargo claims succeed.