Carnival deductible fires controversy

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An unprecedented $10m deductible for each and every claim taken by Carnival Corp for the new protection-and-indemnity (P&I) year is sparking serious controversy.

The deductible is 10 times that taken by the oil majors and the wealthiest shipowners so far and at least arguably affects more than Carnival and the Steamship Mutual and Standard clubs that have done the deal.

Carnival will take the first $10m of each claim, with each club then providing a further $7m of cover, so incidents have to reach $17m before they are shared under the claims-pooling and collective-reinsurance arrangements of the International Group cartel.

The huge deductible will bring a big reduction in the premium Carnival pays - talk in the market is of a reduction of as much as 75% - and mean that routine passenger death and injury claims will be out of the club system and entirely handled by the Miami-based shipowner.

The reduction in premium will mean that the levy Steamship Mutual and the Standard clubs pay to the claims pool in respect of the Carnival vessels will also be reduced, so affecting pool income and other clubs, although the reinsurance contribution is tariff based, at $1.6026 per gt, so not up for negotiation.

This puts the reinsurance cost for Carnival's biggest ship, the 149,000-gt Queen Mary 2 (built 2003), at $239,000 per year and for the group operating 89 vessels of some eight million gt at $12.8m, so a multiple of the premium Steamship Mutual and Standard will be charging for their own underlying cover.

But under the new bunker-pollution convention and others in the pipeline, such as the new Athens protocol covering passenger claims and on wreck removal, both Steamship Mutual and Standard certify ground-up cover, so in addition to the club providing marine liability cover, they have in effect become credit guarantors.

Of course, Carnival is a large quoted group with revenues of $14.6bn last year but other clubs point out that does not mean it is invulnerable, especially in the current economic crisis.

It also appears that market knowledge of Carnival's claims record will be greatly reduced, with all claims below $10m being handled in-house. Some argue that this affects the ability to assess the quality of the fleet and the premium it should be paying for rare high-value claims.

There is also concern that if a claim that initially appeared to be within the retention blows up and results in a huge award that hits the pool or even the reinsurance, the opportunity for clubs to have managed and hopefully averted this situation will have been lost.

The clubs have had an understanding about reinsurance and retentions since the Standard Club did a deal for Japanese coastal tonnage with Tokyo Marine & Fire some years ago and, more recently, Steamship Mutual provided cover for the Korea P&I Club. To comply with this understanding, Carnival has agreed not to insure the $10m deductible, although the group has a Bermuda-based captive, Trident Insurance. Other clubs suggest the shipowner might find insuring the deductible irrestible in years to come.

Steamship Mutual and the Standard Club are, meanwhile, vigorously defending the deal, saying other clubs should be grateful that Carnival is still making a substantial contribution to the P&I system - although a massive proportion of the claims have been removed.

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