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Owners 'facing terror cover crisis'

West of England's Van Dyck warns provision woefully inadequate, writes James Brewer

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SHIPOWNERS are becoming desperately short of insurance cover for a major terrorist attack against any of their ships, a leading executive has warned.

Unless governments and commercial insurers come to the rescue, protection and indemnity mutuals may have to thrash out a way of taking on and sharing the risk.

Stephen Van Dyck, chairman of West of England P&I Club and head of tanker group Maritrans, sounded the alarm in the club's annual report.

The cover crunch came uncomfortably close to home at West of England because one of its members owns the very large crude carrier Limburg, damaged in an assault in Middle East waters in October 2002.

Mr Van Dyck spelt out industry concern by revealing that the club board (comprising 29 leading maritime personalities) sensed that "the risk of terrorism directed indiscriminately at world shipping has, if anything, intensified".

At the same time, the club is worried that some shipowners are failing to recognise the problem.

"Too few seem concerned about the liabilities they face, or the inadequacies of their cover," said Peter Spendlove, managing director of West of England Shipowners Insurance Services.

On top of the Limburg incident, imposition by almost all commercial underwriters of policy exclusions for outrages involving chemical or biological weapons "presents even more of a problem for shipowners", said Mr Van Dyck.

"The reality is that insurance protection for substantial losses may be very limited, if it is available at all.

"Although our managers have been able, with great difficulty, to buy back some limited protection this year for events of this kind, the coverage is only for \$60m in the aggregate for all our members, and it may not be possible to renew it.

"If terrorist events of any severity or frequency occur, this fund will not go very far, especially if there is significant loss of life and injury, or if oil and other environmental pollution is caused."

Mr Van Dyck added that the longstanding assumption that shipowners would not be held responsible for terrorist events was open to question. "The legal burdens now imposed on them by new maritime security legislation, enacted in both the US and elsewhere, are likely to make avoidance of blame more difficult," he said.

Despite strenuous efforts by shipowners and their liability clubs, they had been unable to ensure that the shipowning community would be protected by the US Terrorist Risk and Insurance Act, even on the temporary and limited basis that the legislation permitted.

"This leaves shipowners with inadequate commercial risk and terrorism cover at comparatively low limits of protection in excess of hull value.

"If national governments remain unwilling to share some of these extreme burdens, and if commercial underwriters themselves remain so risk averse, P&I clubs themselves will have to consider more actively whether or not they should pool these risks, along with more traditional P&I liabilities."

The club recognises this could pose technical difficulties for the International Group of P&I Clubs, given the absence of funds for war risk or terrorist claims.

Separately, Mr Van Dyck renews a call he made a year earlier to keep cruiseships in the P&I family, despite the strict liability and higher per capital limits called for by changes to the Athens Convention. Some limitations might be appropriate, but they must be tempered so that passengership operators were not forced to look elsewhere for their P&I requirements.

"Our mutual system needs to preserve its extraordinary commercial value by maintaining, on a sensible basis, and at reasonable cost the great diversity within the International Group's membership."

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