

# Marsh war-risk offer irks clubs

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An offer by a top insurance broker for war-risk cover is not sitting well with some P&I clubs.

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Marsh's offer to find \$500m of war-risk cover for cruiseships and ferries has sparked a new controversy over plans to dramatically raise compensation for passenger death or injury under a revised Athens convention.

The Marsh proposal is seen in government quarters as resolving a key outstanding issue but is provoking concern among protection-and-indemnity (P&I) clubs who insure shipowners against passenger-death or injury claims.

The megabroker has told a correspondence group preparing for implementation of an Athens convention protocol that will raise compensation limited for the largest cruiseships, such as Royal Caribbean's newly delivered, 3,634-passenger *Freedom of the Seas*, to SDR 1.45bn (\$2.15bn)

and that it can find the necessary cover against war and terrorism claims.

Marsh has not defined how the cover would be provided but it could be through a special-purpose scheme such as that set up to provide the Certificates of Financial Responsibility (Cofrs) required to cover US pollution risks.

One Marsh concept is that either existing Cofr schemes such as SIGCo or Shoreline Mutual would run new fully reinsured facilities offering Athens convention guarantees, or that a new special-purpose company be set up if they were unwilling to become involved.

Marsh is certain it can garner the \$500m of capacity required for regular war risks, including the threat of a terrorist attack, but admits this would not provide cover for an incident that was excluded under standard insurance market restrictions on cover for nuclear or biochemical incidents.

The P&I clubs are concerned that government officials in-

volved in implementing the Athens Convention protocol do not realise that Marsh has not overcome the nuclear or biochemical exclusion and that the practice of war-risk underwriters is to cancel cover at very short notice, such as seven days, if an incident is seen as materially raising risk exposure.

The P&I clubs already provide up to \$500m of excess war-risk cover and their managers in many cases also run specialist war-risk clubs. They are now questioning what is going on if Marsh has been able to extract improved terms from war-risk insurers, who are mostly Lloyd's underwriters, that they

have not been prepared to give to established customers such as the P&I and war-risk clubs.

The Athens protocol imposes no fault compensation so the risk involved will probably not arise from a failure by a passengership owner to provide sufficient security but terrorists deciding that an attack on a vessel is a headline-grabbing way of striking out at an

enemy state. The P&I clubs have gradually come to accept the high compensation limits of the Athens protocol but are fighting a rearguard action over specific issues and are also questioning whether a passengership Cofr scheme would generate enough income to be a viable prospect unless premiums were set at very high levels.

Cruiseships and ferries account for only a small part of the world fleet but all tankers and dry-cargo ships that hope to trade to the US have to obtain oil-pollution Cofrs.

Two years ago, Marsh joined in warnings of the difficulty in breaking the deadlock over Athens protocol war and terrorism cover but seems to have been encouraged to find a solution by the potentially lucrative brokerage this will generate.

London hull war-risk underwriters have, meanwhile, added Sri Lanka and Yemen to the list of areas excluded from annual cover, so requiring short-term replacement insurance to be bought for each visit. Offshore oil installations have been added to the Nigerian exclusion but the port of Algiers has been removed from the excluded areas list.



**CRUISESHIPS:** Added coverage Photo: G Ostling