

Cruise cover lacking outside P&I system

The world's two biggest marine-insurance brokers are pouring cold water on the idea that a cruiseship catastrophe can be realistically covered outside the protection-and-indemnity (P&I) clubs.

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Both Marsh and Willis are warning that liabilities running to billions of dollars established by a revised Athens Convention may not be commercially insurable.

The two brokers give a bleak assessment of the prospects of limits of perhaps SDR 500,000 (\$660,000) per passenger being a realistic possibility if pressure from cargoship owners results in the P&I clubs reducing cover to perhaps \$1bn for cruise vessels and ferries.

A diplomatic conference called for October is expected to set compensation limits of perhaps \$2.3bn for the largest passenger ships such as Royal Caribbean Cruises' Gard-insured, 137,300-gt *Voyager of the Seas* (built 1999), which carries well over 3,000 passengers quite apart from crew.

Although the objective of the International Maritime Organisation (IMO) conference is to raise compensation from the derisory levels of the current



CHALLENGE: Royal Caribbean's *Voyager of the Seas* "could break the bank"

Photo: Kvaerner Masa-Yards

Athens convention, it is looking increasingly likely that the paradoxical result will be a reduction in the \$4.25bn of cover that the P&I clubs currently provide to passengerships.

Willis commends the objective of raising compensation for loss of life or injury but says current proposals face fundamental practical difficulties.

"The guaranteed levels of limit proposed would exceed any known insurance-market capacity to fulfil the insurance requirements over a sustained period," said Willis.

The broker cannot completely discount the possibility that

some sort of alternative solution could be developed but notes that other problems would remain, such as finding claims-handling expertise and maintaining the competitive position of ferries against other means of transport.

"It is certain that any product would be extremely expensive and unlikely to be sustainable over the medium term," cautioned Willis.

Marsh warns that it is difficult to predict the insurance capacity available some years ahead, when a revised Athens Convention might come into force. Even if cover turned out

to be available in a favourable market, it could subsequently disappear.

The megabroker is also concerned about reinstatements—the cover that would continue to be available after insurers were burnt by a tragedy costing perhaps \$2bn.

Marsh warns that what is contemplated is a compulsory insurance regime under which underwriters would be required to waive all defences. But the amount of cover required is well in excess of that required for oil pollution in the US or an aviation tragedy under the Montreal Convention.