

Warning over terrorism risk cover shortfall

James Brewer - Friday 20 July 2007

SHIPPING may be heading for a new crisis over shortfalls in insurance coverage for terrorism risk, writes James Brewer.

The fears are emerging after the insurance market only just scraped together a solution, yet to be tested, over levels of compulsory insurance required under the Athens Convention, which applies to passenger ships.

Now shipowners are concerned whether the market will be able to supply practicable and affordable cover for other types of tonnage, on which demands may be placed by the Hazardous and Noxious Goods, Bunker Pollution and the Wreck Removal conventions.

Those conventions will also require certification of terrorism risks, which the P&I clubs, on which owners place so much reliance, do not write.

Shipowner clients would have to ask their brokers to find cover from the commercial insurance market, but even Lloyd's, famed for finding solutions to complex and difficult risks, is said by analysts to be unlikely to be able to fill the gaps. A key question with mandatory insurance is for governments to identify which carriers represent acceptable security.

"Unless a solution is found, ships will be unable to trade," said Paul Hinton, chief executive of A Bilbrough, which manages London P&I Club.

At present there seems little momentum towards addressing the issue.

Late talks over the Athens Convention — expected to come into force in mid-2008 — did produce a formula acceptable to the International Maritime Organization, although some maritime quarters remain sceptical it will work.

Under that formula, Marsh, a leading broking group prominent in marine and terrorist risk advice, agreed to establish a facility certifying cover of \$500m for terrorist risk, but excluding biological and nuclear risks. It does not appear that the other Conventions can readily be amended so as to permit a similar solution.

In its annual report, London P&I Club questioned the sustainability of the Athens facility, because any serious attempt by terrorists to attack a passenger ship during a reinsurance capacity crisis could make it impossible for the level of cover required by the Athens Convention to be provided.

The club also has doubts as to whether compulsory cover for P&I passenger claims under new liability figures is sustainable, because a catastrophic casualty occurring when the market was under strain for other reasons could cause a serious loss of capacity.

"It is an uncomfortable position when governments will not permit ships to trade without certification, and when the amount of insurance requiring to be certified may become unavailable at short notice," said the London Club report.

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