

Battle ahead on passengership cover

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BATTLE lines are being drawn between passenger vessel owners and P&I clubs as a whole over the response to the Athens protocol and the costs of new layers of reinsurance cover the clubs are putting into place, writes Jon Guy.

The clubs have sought to place a new \$1bn layer on their programme and the Athens protocol, which has yet to be formally ratified, puts new limits on the liability of passenger vessels.

It comes as the International Group imposes a sub-limit in respect of death and personal injury claims.

With effect from February 20 the maximum recovery available from a P&I club in respect of passenger claims is expected to be \$2bn per ship, rising to \$3bn when crew claims are factored in.

The limit in respect of all other P&I claims, with the exception of pollution, should remain at approximately \$5.7bn. Such a limit still involves all layers of the group's excess of loss reinsurance.

Negotiations with reinsurers regarding the cost of the contract, together with the group's own internal discussions regarding the apportionment of this cost between industry sectors, are almost complete.

However, debate has raged over the fact that the group was expected to place the new reinsurance layer and has done so predominantly because of the issues with passenger vessels and will therefore seek to place the majority of the burden on to the passenger tonnage sector.

Speculation that rates for passenger vessels could double has been dismissed but the chief executive for the London Club, Paul Hinton, says claims from passenger losses are now a sizable chunk of the group's loss record.

"The new reinsurance layer will cover all risks, but there is little argument that it is being put into place because of the concerns over passenger vessel liability," he explains.

The layer is at the top level so the hope is that it will not be required in practice. "But if you look at the lower level, for want of a better phrase the working reinsurance capital, the passenger vessels make up a high proportion of the claims.

"There has been some debate over the fact that the passenger claims limit has been reduced to \$3bn, but to put in bluntly the P&I clubs would be placed in a precarious position if that figure was breached. Shipowners may well be able to find overspill cover in the commercial market."

Governments are taking a tough line with shipowners and the Athens protocol is set to contain a liability requirement for nuclear and biological attack, something that is not available in the market although at least one leading broker has been working to obtain cover.

It would leave shipowners badly exposed and one said that, when legislators were told that such cover was not available and would fall on the shipowners, their reply was that the vessels would have to sail half empty if they could not afford the potential cost of liability for a full complement of passengers.

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