Little progress in Carnival wrangle

Club managers say they will continue efforts to resolve concerns about the cruise giant's $10m deductible.

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Efforts to find a solution to the controversy over the Carnival cruise group taking an unprecedented $10m deductible on each protection-and-indemnity (P&I) claim are proving elusive.

The issue is currently the most divisive matter in the International Group P&I cartel with the wrangle set to continue as initial efforts to resolve the matter have failed.

A working party of senior club managers has been looking into the implications of the deductible but could not come up with proposals to resolve concerns about its size.

Club managers agreed at a recent meeting of the cartel that efforts to try to find a solution would continue.

Carnival reorganised its P&I cover at the February renewal, raising its deductible from $1m to $10m to get a reputed 75% reduction in its premium spend, arguably turning its P&I clubs into something akin to reinsurers as a huge proportion of claims are taken out of the P&I system.

The deal was agreed by the Steamship Mutual and Standard clubs but agreement could not be reached with the UK and West of England clubs previously used by Carnival, so the cruiseship owner moved its huge 90-vessel fleet.

The Carnival deal is of legitimate concern to other clubs as the mutuals of the International Group pool claims above $7m, have collective reinsurance arrangments and generally work closely together.

Under international conventions such as that covering bunker spills and a new Athens convention on passenger death and injury that has yet to enter force, the P&I clubs provide guaranteed cover, issuing "blue cards" to this effect.

But if the shipowner is self-insuring most P&I risks, the clubs have been turned from liability underwriters into credit-risk insurers — in effect covering the risk that Carnival cannot or will not pay a claim.

Cargoship owners, while happy to be part of a P&I system that provides cover running to billions of dollars by mutualising the accident risk of almost the entire world fleet, are questioning the merit of being a credit insurer of a huge corporation that is more part of the tourism than shipping industry.

Over 250,000 passengers and crew including many litigious and costly US citizens are on board Carnival's ships at any one time, so despite the $10m deductible, the potential for a catastrophe that could lead to a meltdown of the P&I system as it has existed for over 100 years remains.

Carnival has a range of credit ratings from Standard & Poor's and Moody's, depending on the particular note, ranging from A to BBB+ for the former and A2 to Baa1 for the latter.

The risk of an event such as a terrorist attack that would damage Carnival's business and wreck its credit ratings remains an issue for some P&I club managers.

The working party is looking at the general issue of high deductibles but as even the biggest cargoship owners retain a maximum of $1m of risk, the focus is largely on the Carnival deal.

Port authorities and others also rely on P&I club cover as an indication that claims will be properly handled and paid but huge deductibles mean most incidents would not be resolved by the club.

CARNIVAL: Reorganised its P&I cover, raising its deductible to $10m

Photo: Bloomberg News

The reinsurance costs for cruise and passengerships is $1.6026 per gross ton with Carnival's total premium reputed to be not too far above this level.

Contributions to the International Group claims pool are partly based on premiums, so the Steamship Mutual and Standard contribution is reduced by the Carnival deal.

But International Group rules mean that the two clubs each have to take the standard $7m retention on each claim, so Carnival claims only enter the pool at $17m. But there is a lack of statistical information to determine whether the contribution and exposure balance out.

Under the price-fixing arrangements of the International Group cartel, clubs are prohibited from undercutting each other at renewal.

So how did the expiry quotations of the UK and West of England clubs match up to the deals offered by Steamship Mutual and the Standard clubs?

It appears that the two clubs provided an indicative quotation of the price they would want for a $10m deductible but as they did not want the business on such a basis there is some concern about exactly what went on.

The key issue here is that if restrictions on price competition is the price of making the P&I system work, then it should be universal and not something that applies in most cases but can be arranged when it suits a big shipowner and particular clubs.

There is also some concern that big shipping groups such as AP Moller-Maersk, the Japanese lines or even the Fredriksen group might be tempted by the premium savings to be made from big deductibles, so Carnival would not be a special one-off case.

But even the biggest cargoship owners do not have costly claims on such a routine basis as a cruise line, so this is a less serious issue.