Reinsurance costs to hit cruiseships and ferries

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Cargoship owners will face unchanged protection-and-indemnity (P&I) reinsurance costs at next month's renewal but rates for cruiseships and passenger ferries will rise by between 62.5% and 75%.

The surcharges paid by tankers trading to the US to cover the high cost of US oil-pollution incidents are set to fall by about 5% in the fifth consecutive reduction.

The clubs in the International Group P&I cartel have also agreed to buy an extra $1bn of reinsurance to cover risks between $2bn and $3bn at a rate on line (ROL) of about 2.5%, equivalent to a premium of around $25m.

So overall the P&I renewal on 20 February will be rather favourable to cargoship owners of all types but the toughest passengership owners have yet experienced.

The International Group's reinsurance sub-committee met yesterday and agreed to add between $0.50 and $0.60 per gross tonne (gt) to passengership rates, currently set at $0.8006 per gt.

So the increase will be between 62.5% and 75% and comes on top of heavy hikes in cruiseship and ferry-reinsurance costs in recent years.

Passengerships will end up paying about double the reinsurance cost of crude tankers, currently on a rate of $0.6799 per gt, four times the rate for clean tankers, at $0,3201 per gt, and five times the premium paid by dry vessels such as containerships and bulkers, at $0.2851 per gt.

The way the reinsurance costs are being rebalanced means that owners of cruiseships and passenger ferries are paying the lion's share of the extra $1bn of cover — which is in the form of overspill protection — to be bought at the renewal.

This is regarded as a fair move by the clubs even though they have decided to restrict cover for passenger claims to $2bn, rising to $3bn with crew claims included, as cruiseships and passenger ferries are seen as the most likely cause of such high-level catastrophic claims.

A key influence on the rebalancing of reinsurance costs are the much higher limits of liability due to be introduced as a result of a protocol to the Athens Convention.

Although the cruise sector generates large revenues and should have no difficulty paying the extra P&I bill, there is some concern that ferry operators, particularly those trading in less-profitable areas, may find the extra reinsurance costs a burden.

The clubs do not differentiate in reinsurance terms between a large modern Caribbean trading cruiseship and a modest ferry plying Greek or Philippine-island routes.

The International Group clubs are paying a premium of some $236m for the $2bn of reinsurance bought this year. Market sources tell TradeWinds that the premium on a like-for-like basis will go down from 20 February but the $1bn of overspill cover will push the overall bill to something over $250m.

(*For more insurance news, see P&I feature on pages 23 to 29*).

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