

INSURANCE: ATHENS CONVENTION



Risky business

CONTENTIOUS ISSUE: Some traditional owners would rather see cruise lines source cover for their giant ships and human cargoes elsewhere than the P&I clubs.

Photo: Camerapress

Insuring cruiseships against disaster is proving to be a very thorny issue.

The question of the protection-and-indemnity (P&I) clubs being able to continue to cover the huge liabilities of cruiseships and ferries under a revised Athens convention is proving to be the most contentious issue since an alliance of Greek shipowners and the European Commission forced acceptance of a \$4.25bn overall limit of cover in 1997.

Passengerships account for well under 1% of world dwt but some owners and club managers are concerned that the huge claims from another *Titanic* could sink the P&I clubs' ability to cover cargoship owners.

P&I CLUBS IN THE INTERNATIONAL GROUP COMPARED

	American	Britannia	Gard	Japan	London	North of E	Shipowners'	Skuld	Standard	Steamship	Swedish*	UK Club	West of E
General increase 2004 (%)	17.5	8.5	7.5	0	15	17.5	0	15	20	20	15	17.5	15
Cumulative increase since 2000 (%)	114	77	78	31	112	98	38	105	101	116	93	89	107
Free Reserves (\$m)	20	116	276	55	83	80	61	53	105	89	59	179	125
Free reserves per gt (\$)	1.1	1.3	2.4	1.0	2.8	2.3	6.9	0.9	2.0	1.5	3.9	1.5	2.0
Gross tonnage	19	89	116	53	30	34	9	59	51	58	15	120	64
Tonnage growth over decade (%)	414	56	74	13	-5	210	66	31	76	5	63	17	52
Free-reserve growth over decade (%)	34	-3	179	11	947	185	164	49	36	178	0	24	119
Average Expense Ratio	9.0	9.0	8.4	6.5	9.0	9.0	20.0	10.5	7.8	9.7	10.0	10.6	10.7

*Swedish Club free reserves include hull class

Fears have been prompted by a new protocol to the Athens convention that will boost the limit of compensation to SDR 400,000 (\$570,000) per passenger. This raises the threat of a \$1.75bn claim if the biggest of the current generation of cruiseships were to be lost with its human cargo.

It may be linked to the nature of liability, as compared to property

risks, but the P&I clubs always seem to have a few tricky issues on the go and the current period is certainly no exception.

Some owners take the view that it is not viable for the clubs to expose so much of their own financial resources and reinsurance capacity to a risk that concerns only a modest number of owners outside the shipping mainstream who are essentially players in the tourism/entertainment industry. They would rather see cruiseship owners source cover elsewhere or accept a lower limit of cover such as the \$1bn restriction on oil pollution.

Feelings about ferries are less polarised, even though there are some large-capacity ships around

and they have figured in previous disasters. But the Athens protocol does not distinguish between the two types of vessels. It is possible the cruise industry could organise an excess-liability club of its own or find some alternative way of covering the risk but it will probably prove expensive.

A number of the clubs, particularly those who insure the high-premium cruise fleets, want to maintain an inclusive approach and they point out that if cover for passengerships is excluded or restricted, similar arguments could be raised about other types of tonnage that might pose special risks — LNG carriers, for instance.

The P&I clubs still have a little

time to resolve the matter, although the European Union has proposed that all member states should become parties to the Athens protocol by the end of 2005. A move by such a large block of countries will be sufficient to start the clock ticking towards the protocol coming into force.

The shipowner directors of P&I clubs have been debating whether a lower limit should be introduced for passengerships and if so, should it be limited to the reinsurance cover of a little more than \$2bn or some lower figure?

It looks as if the first round of the debate has failed to produce a clear-cut conclusion.

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