Intro

Steamship Mutual provides P&I cover to both owners and charterers. In addition the Club offers a range of ancillary products, including War cover. Recent events in Ukraine and the Red Sea mean it is more important than ever for Members to understand the scope of cover they have for War Risks.

I am joined today by Rupert Harris. Rupert is the CEO of Steamship Mutual Europe, one of the Club's Underwriting Directors and also the Club's Head of Reinsurance.

I would like to focus on Charterers cover. Do Charterers have cover for War Risks under their P&I and Damage to Hull cover?

Yes, they do. The position is different from a vessel owner, who will generally buy a separate cover for both his hull and P&I war risks exposure. That is not necessary for charterers, because the Club includes P&I war risks under the general terms and conditions of the charterers cover. By War, we mean not only war itself, but also civil war, revolution, rebellion, insurrection or civil strife. Also hostile acts by or against a belligerent power or any act of terrorism. In addition, cover will exclude any liabilities which arise out of weapons of war, such as mines and torpedoes. There are two important caveats to that coverage. Firstly the relevant charterparty must permit the owner to refuse orders to send the ship to any geographical location that is dangerous by reason of war risks. Secondly there must be no express indemnity given by Members to the owner in respect of such voyages.

How has the situation in both Ukraine and Russia affected Charterers War cover?

There has been a great deal of stability over many years in the scope of war cover which the Club has been able to provide its members. Whilst there is a right to cancel the cover upon giving notice, this had not happened under our charterers policy until last year when the reinsurance market for Russian and Ukrainian risks collapsed. Essentially the large reinsurers, who provide cover to the Club's own reinsurers, took the decision not to provide cover for Russian and Ukrainian war risks. This meant that the Club's own reinsurers suddenly had no cover themselves for the risks which we transferred to them under our reinsurance contract. We were therefore advised that going forward our reinsurers were no longer able to offer coverage for war risks relating to the Russia/Ukraine war. We were then unfortunately left with no choice but to exclude such risks from our own cover to members. Excluding cover from our members is of course the very last thing that we want to do. One of our main purposes is to facilitate our Members ability to trade when and where they want to trade. The Club therefore set up a separate reinsurance programme specifically for Russia/Ukraine charterers war risks. There is limited capacity available in the market which is willing to underwrite these risks without reinsurance, so this was not an easy proposition. However, we were able to put a reinsurance programme in place and we now offer cover with limits up to $150m. This is the so called Russia/Ukraine/Belarus or RUB buyback.   It buys back the exclusion of charterers war liabilities arising out of the Russia/Ukraine war.

How is the cover priced?

Most war covers have additional premiums based on a vessel being within a particular geographical area – a so called High Risk Area. The wording of the RUB exclusion is much wider than that because it excludes not only events within a geographical area but also liabilities arising out of the war. That means a members exposure could go beyond the High Risk Area, which is in the north part of the Black Sea. So, for instance, we have seen vessels in the southern part of the black sea, outside the HRA, hit by mines which have floated from the Ukrainian coast. Any charterers P&I war liability associated with such events is excluded even though they occur outside the HRA area. It is really important that charterers understand this exposure and the impact on cover, however remote they feel it might be.

The risk of charterers liability arising from a war event in Russia, Ukraine or the Black Sea varies. There is clearly a lower risk for a vessel trading into a southern

Black Sea port, outside the High Risk area, such as Romania, Turkey or Georgia. Whereas trading into Ukrainian ports represent the upper end of the risk spectrum. Pricing reflects this variation in risk, with the rates for vessels trading into Ukraine, where the risk of damage is higher, being the most expensive. We charge a premium based on a percentage of the limit of cover purchased. This means that Members can purchase a limit which fits within their budget for the voyage.

Is the position the same for the Red Sea?

Yes and no. Due to the increase in attacks by the Houthis on vessels transiting the Red Sea, our reinsurers recently decided to issue a notice of cancellation for this area too. The exclusion here is purely geographical and relates only to events which occur within the High Risk Area. The reasons for this exclusion are different from the Russia/Ukraine situation, because our reinsurers are not faced with losing their own reinsurance. That is fully in place. The reinsurance market appears to have taken this step purely based on their view of the premium paid by P&I Clubs against the exposure they have as our reinsurers, excess of a large Club retention, to P&I war risks in the Red Sea. Whether or not that is the correct decision on the reinsurers part is debatable and we certainly take a different view. Steamship is not alone in facing this new exclusion – all P&I Clubs and charterers insurers face the same problem. Again, we were required to find replacement reinsurance for this risk, which I am glad to say we did in a very short time. Pricing for this risk is on a per transit basis - it normally takes 3-4 days to go through the high risk area. Limits are available up to $200m. As with the RUB buyback, the Red Sea buyback cover simply fills the hole left by the new exclusion.

What is the advantage to a Member in placing its charterers Buyback War cover with Steamship?

Consistency of approach and ensuring there is no gap in cover. We are the Charterers liability insurers and the buyback is covering liabilities in accordance with each Charterers own terms and conditions with Steamship. It therefore makes sense to have the same underwriter for each part. The danger with placing the buyback cover with another insurer is that Members could end up in a position where each underwriter believes a claim lies with the other underwriter. If both the underlying and buyback cover are placed with Steamship, there can be no issue with who pays the claim. Importantly of course, the Club is also an expert in handling charterers P&I claims and members know the Club will provide them with the depth of knowledge and assistance they need to defend themselves.

Is there anything else that we can offer Charterers in respect of War risks?

Charterers are very often faced with paying for an owners Hull War risks when they employ a vessel for a voyage which will pass through a High Risk Area. For charterers of a large number of vessels, these additional premiums can quickly aggregate to very significant sums. Charterers are generally dealing with a number of individual owners and are paying their individual additional premiums. This means that a charterer is unable to gain any benefit from the economies of scale you would normally expect when paying large premium volumes. The Club can therefore create a facility for the larger charterers to place each owners' hull war cover under. This allows the charterer greater oversight of the premiums they are paying, along with the various discounts and No Claims Bonuses which are available. Owner's War premiums are a significant part of a charterers overheads, so this type of facility helps them benefit from economies of scale and cheaper rates.

Thank you, Rupert for your thoughts today. Details of the Club's War Risk policies can be found on our website or from the Underwriting Department. Many thanks for listening.