

# **MEMBER ALERT**



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## **COVER FOR WAR AND TERRORISM RISKS FOR 2020**

Reference is made to Circular No. 42/19 of December 23, 2019 which, inter alia, described the arrangements which have been made to provide special (excess) cover for war and terrorism risks for the 2020 policy year.

As will be noted from the Circular in question, the terms on which the excess war and terrorism P&I cover will be provided for 2020 is in most respects the same as for 2019, including the limit of cover of \$500 million.

However, while the subject is mentioned in the Circular, it has been thought prudent to provide further elucidation of the change for 2020 to the definition of the excess point of the cover. This change is in respect of the minimum excess point of the policy. This has increased from the proper value of the entered vessel (as agreed by the relevant club) or \$100 million, whichever is the less, to the proper value of the entered vessel (as agreed by the relevant club) or \$500 million, whichever is the less.

Following consultation between the International Group's brokers and reinsuring underwriters, the description of how the excess point is to apply for 2020 has been agreed as follows:

*"This policy to pay claims excess of amounts recoverable under vessels' war or crew war risks Protection and Indemnity policies subject to a minimum excess of the proper value of the entered vessel (as agreed by the relevant Association) or \$500 million whichever is the less (applicable to owners' entries and not to Charterers' entries), and further subject to a minimum excess of \$50,000 any one event."*

The brokers and reinsuring underwriters have been concerned that the intent of this clause should be clearly understood and, following discussions with the Group, its brokers have issued the following clarification which has also received the approval of reinsuring underwriters:

*"It is therefore our understanding that in respect of Owners' entries this policy will respond excess of underlying insurances with a limit of at least the proper value of a vessel.*

*In the event that a vessel is not so insured, this policy will respond as if an underlying policy with a limit up to the proper value were in place, except that for a vessel with a proper value of more than \$500 million, the deemed underlying excess shall be \$500 million.*

*Further we understand that this policy will be in excess of all other policies placed by owners for vessels' or crew war risks P&I. We do not believe that corporate general liability umbrellas placed on behalf of organisations of which shipping*

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*forms a part are underlying policies hereon (even if they might include some war and terrorism cover).*

*We believe reinsurers understand that Club boards may exercise their discretion as to what constitutes the proper value of an entered vessel, but the payment of claims under this policy remains subject to the criteria above.”*

Members should note that they are deemed to have underlying cover with conditions equivalent to the cover above (“P&I - War Risks”) equal to at least the proper value of the entered vessel. Furthermore, this cover is excess of any cover which the Member has actually taken out applying to the risk, unless the cover is a corporate general liability umbrella cover.

The effect of this change is that Members who have vessels valued individually at more than \$100 million and who do not purchase primary war risks insurance will have a larger gap in their cover for the 2020 policy year (to fund for their own account). **Members are therefore recommended to review their war risks arrangements to ensure they are aware of their exposures in respect of any vessel valued at more than \$100 million.**

Members are also reminded that where payment by the Club under a guarantee or a certificate is in respect of war risks, Members are to indemnify the Club to the extent such payment is recovered or would have been recoverable under a standard P&I war risk policy.