APRIL 1, 2003

CIRCULAR NO. 7/03

TO MEMBERS OF THE ASSOCIATION

Dear Member:

WAR AND TERRORIST RISKS

Reference is made to Circulars 2/03 and 5/03 of January 30 and February 11, 2003 respectively. The purpose of this Circular is to revisit certain issues raised in the latter document in light of recent clarifications received from the International Group of P&I Clubs' reinsuring underwriters.

Chemical, Bio-chemical, Electromagnetic Weapons and Computer Virus Exclusion Clause

This clause is new for the 2003 policy year. It has been introduced as a result of the implementation of similar clauses in almost all reinsurance contracts to avoid undue aggregation of risk.

As earlier advised in Circular No. 5/03, the clause reads as follows:

> *This clause shall be paramount and shall override anything contained in this insurance inconsistent therewith:*
>
> *1. In no case shall this insurance cover loss damage liability or expense directly or indirectly caused by or contributed to by or arising from*
>
> *1.1 any chemical, bio-chemical or electromagnetic weapon.*
>
> *1.2 the use or operation, as a means for inflicting harm, of any computer virus.*

Problems have arisen with the interpretation of this clause. It is potentially much too wide. Following discussions between the International Group, its brokers and reinsurers, the brokers have issued the following statement with the approval of reinsuring underwriters:

> *The Chemical etc., Exclusion Clause (MM Clause No. 2249(a)) was introduced to this placement for the first time at February 20, 2003.*
>
> *It is our understanding that the phrase 'any chemical, bio-chemical...weapon' was intended by underwriters to exclude neurological or viral agents such as sarin, mustard gas, anthrax, smallpox etc. It is not intended to refer to the use of a vessel or its cargo as a means of inflicting harm, unless such cargo is itself a chemical or biochemical weapon within the scope of the clause. We understand the phrase 'electromagnetic weapon' to refer to highly sophisticated devices designed to disable computer software, and not to methods of detonation or attachment of explosives.*
>
> *The exclusion of 'the use or operation, as a means for inflicting harm, of any computer virus' is relevant in the context of this policy only if it is used as an act of war or terrorism.*

P.T.O.

The International Group has submitted a revised wording for the clause which incorporates these principles and it is hoped that the language of the clause for 2004 will be clearer.

Excess point

The wording of the excess point for the International Group of P&I Clubs' reinsurance contracts has been changed for 2003 policy and now reads as follows:

> *This policy to pay claims excess of amounts recoverable under vessels' or crew war risks P&I policies subject to a minimum excess of the proper value of the entered ship or $100,000,000 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.*

Once again, the Group's brokers and reinsurers are concerned that the intent of this clause should be clearly understood and, following discussions with International Group representatives, the brokers have issued the following clarification with 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 $100 million, the deemed underlying excess shall be $100 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 organizations of which shipping 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 and the Claims Cooperation Clause.*

Members are asked to note that they are deemed to have underlying cover with conditions equivalent to the Club's cover given under the proviso to Rule 3.1.1 of the Rules of Class I (War Risks P&I) equal to at least the proper value of the ship. Furthermore, this cover is excess of any cover which a Member has actually taken out which covers the risk, unless the cover is a corporate general liability umbrella cover. A corporate general liability cover is difficult to define and it is important that Members who consider they have such cover should inform the Managers so that the position can be clarified. Members are recommended to seek clarifications similar to those set out above from the underwriters of their underlying War Risks cover.

In all cases, and as usual, the Managers will be pleased to help in answering any specific inquiries in regard to the foregoing, or any other general questions which Members may have.

Yours faithfully,
Joseph E.M. Hughes, Chairman & CEO
Shipowners Claims Bureau, Inc., Managers for
THE AMERICAN CLUB