BUYING COVER

WHAT LIMIT OF LIABILITY - TO PURCHASE

A guide for Charterers when considering appropriate limits of liability to purchase.

An international team of reputable, dedicated and knowledgeable marine insurance professionals, proud of delivering high quality insurance products and advisory services to companies that charter vessels to carry cargo by sea.

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Complex trading and freight markets mean that charterers need insurance with 1st class security and the support of a global team of specialists.

With the creation of the Charterers P&I Club in London in 1986, we set up the first vehicle dedicated exclusively to charterers and rapidly established ourselves as a respected market leader. Since then we have consolidated this position and our international team of maritime professionals can offer clients unrivalled levels of expertise and experience in this specialised and technical field. This formidable resource is backed up by an insurance policy underwritten by one of the world’s largest insurance companies, with a market-leading financial rating.

Our comprehensive charterers’ liability cover and freight demurrage and defence insurance are available to all charterers and traders. Currently, the Club insures over 360 charterers and 12,500 vessels. Our client pool includes clients from large shipping companies to cargo interests who might only have a few requirements for a handful of fixtures per annum.
Shipping operations are not without risk and if you have gone to the trouble of buying cover then you need to ensure that the limit is relevant to the potential exposure.
WHAT LIMIT?

We frequently discuss with charterers what limit of liability they need to consider purchasing for their day to day shipping operations; these conversations can vary between requests for USD 5 million of cover to satisfy a charter party condition to very detailed discussions about exposure and the correct limit to purchase.

RISK EXPOSURE

A charterer faces risk throughout the voyage but our largest claims, and a charterers greatest exposure, is at the load or discharge port arising from loss of a vessel and wreck removal following breach of the safe berth or port warranty that can be found in almost all charter parties.

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A charterers greatest exposure is at the load or discharge port.
Taking a reasonably modern handy bulker we can see how the costs mount quickly. Assuming an ore cargo and a major casualty in an Australian port, with the vessel a total loss, entailing removal of the wreck, the following would serve as a guide as to the exposure and therefore limits to consider purchasing:

**COST EXAMPLE**

- **$30M** VESSEL HULL VALUE
- **$20M** P&I RISK, PERSONAL INJURY, etc.
- **$125M** WRECK REMOVAL
- **$15M** CARGO VALUE (IF THIRD PARTY)
- **$20M** POLLUTION & FINES
- **$15M** LEGAL COSTS

**$225M TOTAL**
CALCULATING VALUES

When looking at values you should factor in the maximum hull and cargo values exposed; wreck removal should also be looked at based on the size of the vessels you frequently charter, plus how difficult it might be to deploy salvage assets to the area.
CASE STUDY

For the past six years the Club has been handling the litigation arising from a major casualty involving a grounding and wreck removal.

Our investigation always indicated that the port was safe and that the master simply lost control of the vessel. However the Owners' (IG) P&I Insurers were determined to pursue the charterer for USD 145 million which represented their loss.

The matter has recently concluded and with the guidance we provided and USD 12.5 million spent in investigation and legal costs, both the Club and the Charterers are extremely happy with the outcome.

This sort of expenditure is by no means unique if you end up being pursued by an aggressive Owners’ P&I Club who either want to pin the full loss on the Charterer or drive them into a position where they feel they have to settle.
CONCLUSION

Satisfying a charter party condition and buying USD 5 million of cover doesn’t even begin to meet the costs of a serious casualty and a thorough review of your limit and exposure should be conducted every couple of years.

If you have gone to the trouble of buying cover in the first place make sure it’s adequate for your potential exposure, if you are offered a limit below your maximum worst case loss you might want to question whether your Insurer has your best interests or theirs at heart.
CONTACT US

Charterers or others requesting further information are invited to contact us.

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VESSEL INSURANCE COST ENQUIRY

If you are interested in receiving an indication of the cost of insuring vessels with The Charterers P&I Club please complete our Proposal Form.

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