

War Risks Cover

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WORKING WITH THE LONDON P&I CLUB



The London P&I Club's War Risks cover provides its Members with comprehensive insurance, first-class service and competitive rates.

Our cover is also broader than other market products in a number of important respects. These – and the other advantages of our approach to War Risks insurance – are summarised in this brochure. For further details please contact us at: underwriting@londonpandi.com or via your usual London P&I Club underwriting contact.

The five key sections of our War Risks cover are:

HULL & MACHINERY

DETENTION OR DIVERSION EXPENSES

WAR RISKS P&I

SUE & LABOUR

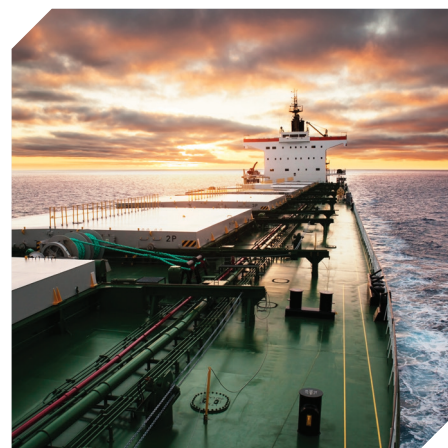
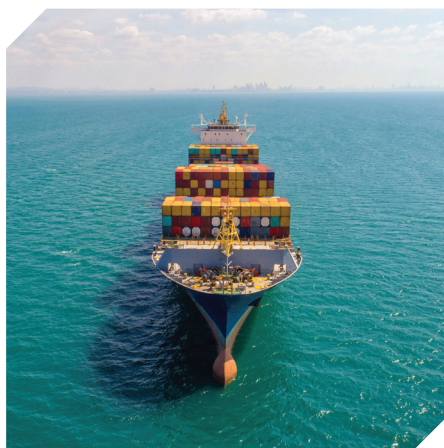
DISCRETIONARY CLAIMS

Additionally, limited cover for Nuclear and Bio-chem and Computer Virus / Cyber Risks is available.

Benefits of our cover – in short:

- **Breadth and scope**
Our insurance includes separate limits for H&M and P&I; and provides cover for detention or diversion expenses.
- **Service and security**
Members work with The London P&I Club's claims and underwriting teams.
- **Seamless and coordinated**
Our War Risks and P&I insurances dovetail with one another, avoiding the risk of gaps in cover and ensuring a consistent approach to claims.
- **Mutual**
As a mutual, we focus on our Members. Our Committee has scope to agree claims that otherwise do not fall within our Rules where it is in the interest of the shipowner and mutual to do so.

ADVANTAGES OF OUR COVER



1. Breadth and scope

Our War Risks cover is further reaching than the customary London market product on Institute War and Strikes Clauses [1/10/83] and Institute P&I War Strikes Clauses (Hulls) [20/7/87] in several important respects – as illustrated below.

a. H&M and P&I War cover

London P&I Club cover:

Separate limits for Hull and P&I War risks:

- H&M with a value agreed with the Association
- P&I up to US\$500m, irrespective of the value agreed for H&M

Market cover:

Separate limits for H&M and P&I War risks cover are common:

- H&M with agreed value; but
- P&I only up to the H&M sum insured

b. Cover for detention or diversion expenses

London P&I Club cover:

Cover for daily running costs in detention or diversion cases. Plus provision for a lump sum payment based on a proportion of the ship's insured value in the event of prolonged detention.

Market cover:

- No equivalent coverage within the Institute Time Clauses referred to above.

2. Seamless and coordinated

As illustrated on page 3, depending on a shipowner's insurance arrangements, a war incident can lead to the involvement of two or more insurers. When this happens there is room for tension between the different insurers – for example, over who will take the lead in claims handling, over reaching agreement on the optimum claims management strategy; and even over resolving the issue of potential double insurance.

Purchasing War Risks cover from your P&I insurer removes these difficulties. The alignment between The London P&I Club's War Risks and P&I covers – and our experience in the underwriting, claims management and servicing of both covers – ensures a consistent, coordinated approach.

3. Service and security

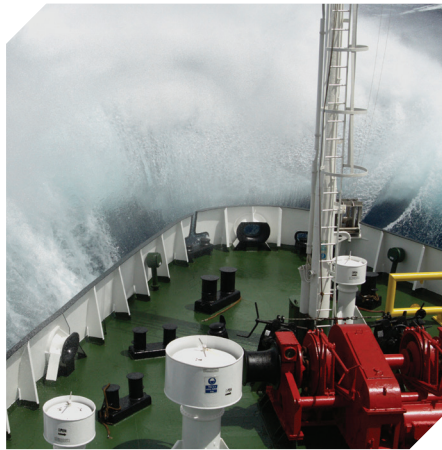
The London P&I Club is one of the world's leading P&I insurers, underwriting P&I, FD&D and War Risks insurance for shipowners and charterers. We are a member of the International Group of P&I Clubs, underwriting a global, diverse book of business.

4. Mutual cover

Our Committee may decide that a claim not otherwise recoverable under the War Risk Rules is nevertheless within the scope of this class of business. P&I Members may be familiar with the equivalent "Omnibus" provision in our P&I cover.

CASE ILLUSTRATIONS

Benefits of our approach to War Risks cover



Example 1 – Limit of War P&I cover

Assume a war incident giving rise to significant damage to the ship and a range of P&I War liabilities for loss of life, pollution, cargo etc. Assume that the shipowner's War Risks insurance is arranged on the basis of the market cover shown on page 2. If the sum of the various P&I War liabilities exceeds the hull sum insured, the shipowner will face a shortfall in the recovery available under the market War Risks cover.

Excess P&I War Risks cover may be available under the owner's P&I Club insurance; but this is subject to its own conditions and would require the involvement of another insurer and its approval of, for example, the primary insurer's handling of and response to the claim.

By contrast, The London P&I Club's P&I War Risks cover is not limited to the hull sum insured; a separate limit is available up to US\$500m.

Example 2 – Double insurance

Coverage for acts of piracy illustrates the issues that involving more than one insurer may have in relation to claims in respect of war – and the potential uncertainties that can arise, as a result. Claims arising from acts of piracy are not excluded from P&I Club cover while the hull market typically includes piracy as part of its war risks coverage. So there is scope for both insurances to have an interest in a piracy case, resulting in uncertainty over which insurer should respond to the claim and to what degree. This can also lead to delay in the taking of claims management decisions and potentially a need to resolve issues arising out of double insurance.

Where The London P&I Club is providing both the P&I and the War Risks cover the risk of such tensions is avoided.

Example 3 – Ransom cases and different insurer strategies

In the event of a ship being seized by pirates, War Risks insurers will seek to minimise the cost of any ransom payment (generally accepted as a sue and labour cost under a Hull War risk insurance). At the same time, the P&I Club (which will be interested because, as noted, piracy is not excluded from Club cover) will also be concerned about claims in respect of the crew and the risk of claims for damage or delay to the ship's cargo, particularly where it is perishable. A ransom payment may be reduced through negotiation over time, whereas the exposure towards the crew and the cargo interests may well increase over the same period. This dichotomy illustrates that where the Hull War Risks and P&I War Risks covers are with different insurers, there may be an inherent tension between the two over the strategy for ransom negotiation.

Again, this is avoided when The London P&I Club provides both covers.



Working with The London P&I Club

Premium

There are two parts to our premium structure:

- An **Annual Premium** (calculated as a percentage of a ship's insured value) for regular worldwide trading – i.e. in areas considered to present a customary risk.
- An **Additional Premium** which becomes payable when a ship intends to enter an excluded area presenting a perceived enhanced risk. These premiums are also charged as a percentage of the ship's insured value, and usually cover a seven-day period. The areas for which Additional Premiums may arise can be subject to change during the course of the year, on seven days' notice.

Service

We have offices in London, Hong Kong and Piraeus, while our global network of P&I correspondents, lawyers and surveyors also helps to ensure the provision of a high-calibre 24-hour international service.

One of our main objectives is to provide all our Members with the highest standards of support and service. Over the years our War Risks team has worked closely to assist Members unfortunate enough to have experienced instances of ship hijack by pirates.

Quality and strength

War Risks insurance is one of the Classes of business underwritten by The London P&I Club. Liabilities are pooled with two other International Group P&I Clubs, making up the Combined Group of War Risk Associations. The Combined Group purchases comprehensive reinsurance from A-rated reinsurers at competitive rates.

This brochure provides a high-level summary of our War Risks cover which is subject to the War Risks Rules available at:

www.londonpandi.com

For further information please contact us at:

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or via your usual London P&I Club underwriting contact.

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