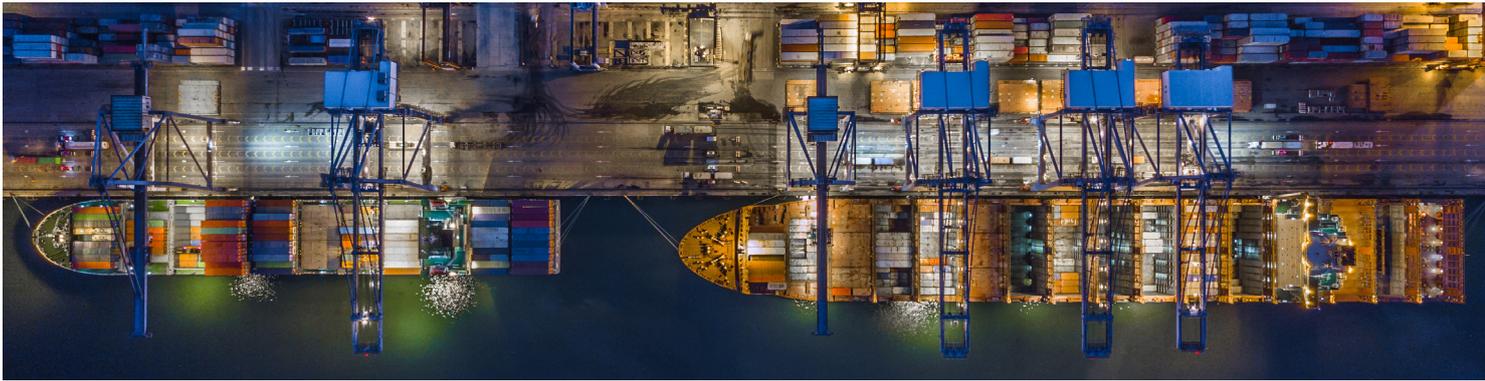


# International risk team



## Practical briefing – marine products

**The impact of the current COVID environment (and its longer-lasting effects) on marine insurance products falls, we believe, into three categories.**

### Claims handling

Responding to marine incidents and casualties is, for the time being, a lot harder. Getting crew/surveyors/experts/equipment on site is taking a lot longer. In some ports and countries it simply isn't possible at the moment. The incident response and repair planning needs a lot more preparation and the detailed consideration of appropriate contingency measures. There are a myriad of logistical problems slowing things down. With increased quarantine measures for any international vessel movement, you can expect the incident response/repair cost to increase as people and

vessels/equipment have to wait around longer. Global trade cannot just stop and most ports are still operating but with restrictions on ship/shore contact. For many countries the duration of a vessel's inward voyage can count towards any applicable quarantine periods provided the vessel can demonstrate the protective measures it has taken. The International Group of P&I Clubs has a very helpful live dashboard of affected ports and their operational restrictions that can be found here [www.igpandi.org/covid-19](http://www.igpandi.org/covid-19). But the main challenge is getting your personnel/equipment/support vessels into the country itself. That needs to be planned and the costs are going up. Some of that will fall on (re)insurers. There are going to be local marine surveyors available in most ports. However, getting crew and superintendents/surveyors on and off the vessels is hard.

### Specific products

**Cargo/Stock Throughput** – The vast majority of open covers are all risks ICC(A) clauses and there is an express exclusion for loss caused by delay. However, there is exposure for loss/damage due to financial default (the ICC(A) exclusion is usually watered-down in most marine open covers) and there is an exposure for forwarding charges on termination of the voyage. In marine open covers it is quite possible that the war/strikes section doesn't respond to detention etc due to quarantine. You need to check the marine open cover terms. Storage and warehouse risks are likely to increase so check the duration and scope of cover for your Theft & Misappropriation and Unexplained Loss clauses. As the global supply chain slows, a lot of insured stock is going to be sitting around for longer than usual. How much of it will still be there as the world reactivates later in

the year is anyone's guess. So keep a close eye on your storage and theft/misappropriation exposures. Expect extension requests.

#### Hull & Machinery/Increased Value Etc

– As a physical damage cover it is usually all risks now (additional perils etc). However, underwriters will have to keep an eye on their warranty compliance and survey warranties in particular. Expect requests for extensions of time for both the survey and for the compliance with recommendations. The appointed warranty surveyor should be able to manage that and keep you informed. Some warranty survey companies are agreeing

standby rates to have warranty surveyors serve quarantine periods and be available. It will be more difficult for Class surveyors to reach vessels and perform and complete the surveys. Shipowners should be on top of that already and in discussion with their Class Societies. But it is not uncommon for owners to wait until the end of their survey compliance windows before they react.

**War** – There is a potential detainment risk albeit the Institute war clauses include the quarantine/ customs infringement exclusion. However, that quarantine/ customs infringement exclusion often gets removed/watered down in the slip. So war (re)insurers need to audit

their slips to ensure the exclusion is maintained. In most war slips the detainment has to extend to 180 – 360 days before the vessel is deemed a CTL. However, 180 days can go by quicker than you think. Just ask the war risk insurers who faced Somali piracy claims. There is also an expropriation risk. Most flags states have the right to requisition/expropriate vessels under their flag in times of national emergency. That risk is expressly excluded under the Institute war clauses but again it can be edited out or watered down in the final war slip so it needs to be checked.



**Loss of Hire** – The usual ABS LOH wording follows hull and war standard perils so (absent changes to the war perils) it shouldn't respond (net of deductible) if a vessel is prevented from earning due to eg a COVID quarantine or lockdown. However, there are numerous non-physical damage LOH covers out there. If purchased, they will be akin to the non-PD business interruption covers for the onshore property market. Also, each charter clause for earning hire/demurrage will be different. However, the standard industry clauses for infectious diseases etc put the responsibility on to the charterers and the vessel keeps earning, unless the quarantine/infection is because of the vessel's crew.

**Marine Liabilities/P&I** – outside of the IG sphere, the fixed premium P&I/marine liability sector perhaps has the largest exposure due to the COVID environment. Focussing on commercial blue and brown water trades only, significant delays in movement in and out of port will have a knock-on effect for cargo damage claims. There is also of course the very pertinent issue of crew injury and death. If your marine liability policy stands as a Blue Card certificate (especially for MLC liabilities) there is an enhanced risk of crew repatriation/compensation payments. For FD&D, the delays in vessel movement will lead to more charterparty disputes as owners and charterers argue

over who has to pay the hire or the demurrage. From a P&I perspective, one of the sectors badly hit so far has been cruise ships. It remains to be seen to what extent the cruise cancellation and passenger claims will filter into the P&I community and into the International Group Programme.

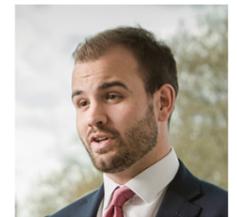
#### Potential Impact of Longer Term Economic Downturn & Global Recession

We believe we can expect the same issues that arose after the 2008 financial crisis to come back into view:

- increased insolvencies and forwarding of cargo to destination
- more "stuck" stock accumulating and not moving anywhere – larger exposure to lost/missing stock under stock throughput/marine open covers
- lay-up and reactivation issues
- mothballed construction
- maintenance/wear & tear issues as operational budgets are squeezed
- increased crew negligence incidents as owners reduce crew costs
- increased risk of fraudulent claims.



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