

# P&I Circular

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## Part 2 Protection & Indemnity Insurance 2019/2020

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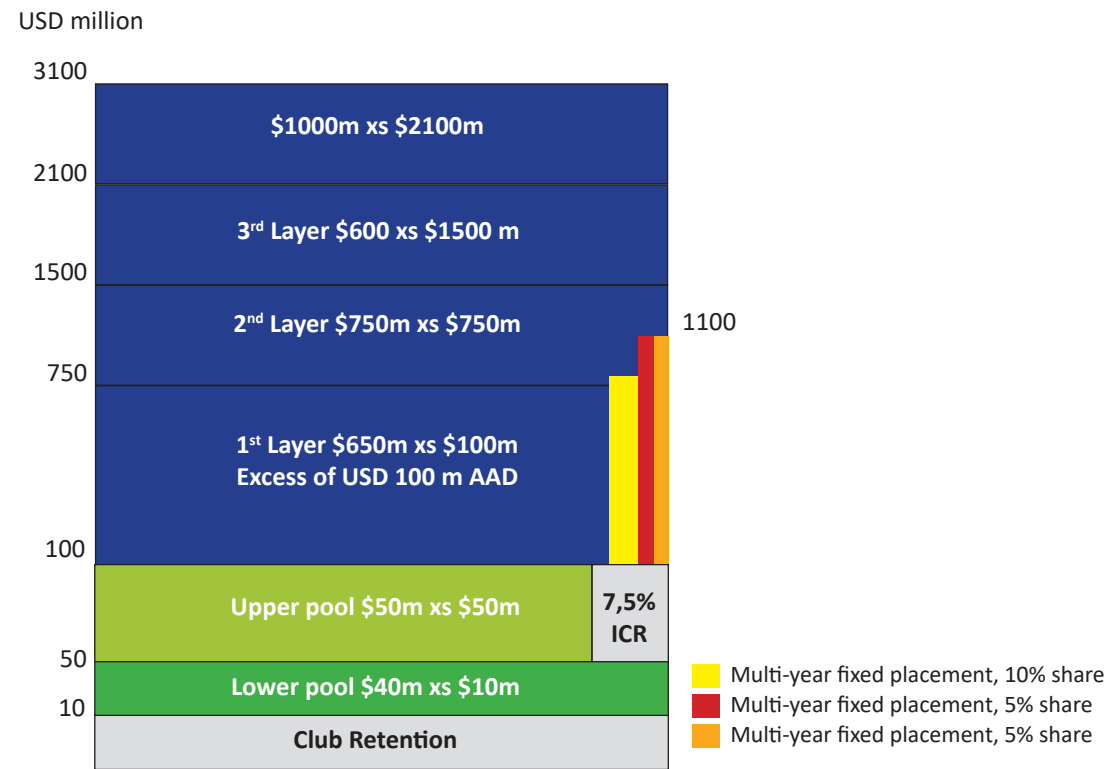
## Part 2

### Executive summary

#### Explanation of reinsurance and premium structure

The Swedish Club provides P&I cover for its members for each and every accident and/or occurrence up to approximately USD 6.0 billion. The high limit is needed to adequately protect members/ shipowners financially and to make sure that they are covered for accidents that may occur under worst-case scenarios, when taking into account current international legislative schemes. To be able to provide for these limits, the IG Clubs, where The Swedish Club is a member, re-insure each other as well as buy reinsurance together to ensure that insurance costs are kept to a minimum. It is our aim to try to explain how we reinsure P&I liabilities on behalf of our members and the different costs involved, as well as showing how premiums are charged.

#### IG Reinsurance Programme 2019/2020



**Retention – 0 to USD 10,000,000**

The Retention of each Club is USD 10,000,000. It is up to the individual Clubs to buy reinsurance to cover claims within the retention.

The Swedish Club's Board of shipowners has decided to cap P&I claims at USD 3,000,000 for each individual member as it has felt that it would be unfair and exorbitant to charge the full amount to a member's record. Therefore the biggest claim an owner can have in his or her claims record is the aforesaid amount.

**Premium for the retention is divided up in three parts:**

1. A premium based on the exposure for the fleet based on vessel type/age, cargoes carried and trade the member is involved in.
2. A premium based on the individual member's claims record for claims below USD 3,000,000.
3. A mutual reinsurance premium (abatment) to cover claims between USD 3,000,000 to USD 10,000,000 is charged to each member. The rationale for charging a reinsurance premium is that member's records have been protected by the Club.

**Pool – USD 10,000,000 to USD 100,000,000**

All members of the International Group share and pay each other's claims in excess of USD 10,000,000 and up to USD 100,000,000.

**Lower Pool – USD 10,000,000 to USD 50,000,000**

Each Club pays claims according to GT, premium volume as well as individual Club claims results within the layer. The layer has a payback mechanism where a Club will pay back any deviation from a balanced/neutral position over time.

**Upper Pool – USD 50,000,000 to USD 100,000,000**

Each Club pays claims based on GT only. The claiming Club will pay 7.5 % of the claim in the layer for its own account and the remainder will be shared based on GT.

Mutual pool reinsurance premium is based on modelled expectations and distributed on a balanced/neutral basis. Each Club assesses pool claim contributions based on figures provided by the International Group at the beginning of the year and the anticipated claims cost is part of the annual premium.

**Reinsurance layers – USD 100,000,000 to USD 3,100,000,000  
(often called Excess of Loss Programme)**

The Swedish Club participates in the International Group of P&I Clubs' general reinsurance arrangement in excess of USD 100,000,000. This reinsurance is placed with large reinsurance companies and on the Lloyd's and London markets. The cover is placed through the reinsurance sub-committee of the International Group where all participating Clubs are represented.

**Reinsurance - in excess of USD 3,100,000,000 – Overspill**

If a claim was to exceed USD 3,100,000,000 i.e. the limit of the Group pool's excess of loss contract, the excess or "overspill" would be pooled amongst the Group Clubs. The overall Group pool limit for such an overspill claim remains unchanged at 2.5 % of the property limitation funds under the 1976 Limitation Convention of all ships entered in all International Group Pool Clubs. Members remain ultimately liable to pay an overspill call up to a maximum of this limit for each entered ship in accordance with Rule 24 of The Swedish Clubs' Rules for P&I Insurance.

**Overspill Premium**

No mutual reinsurance premium is charged upfront for overspill claims.

**Mutual Premium Structure**

P&I premiums are set to cover a combination of exposure and actual costs for claims on an individual member basis, mutual and Club-specific cost of large claims, reinsurance costs and finally brokerage. On top of this, P&I Clubs have operational costs for running the Club. On the other hand financial income/investment income is not credited to owners' accounts.

**The basic Premium Structure for The Swedish Club:*****Individual Member premium – premium for layer USD 0 to USD 3,000,000***

- a. Premium is set based on the exposure for the fleet depending on vessel type/age, cargoes carried and trade the member is involved in
- b. Premium is based on the individual member's claims record for claims below USD 3,000,000

**Mutual premium – premium for layer USD 3,000,000 to USD 10,000,000**

A mutual reinsurance premium (abatment) to cover claims between USD 3,000,000 to USD 10,000,000 is charged to each member. The rationale for charging a reinsurance premium is that members' records have been protected by the Club. The abatment reinsurance premium is distributed based on modelled expectations. If actual claims in this (abatment) layer are lower or higher than anticipated free reserves will be credited/debited.

**Pool premium – premium for layer USD 10,000,000 to USD 100,000,000**

Mutual pool reinsurance premium is based on modelled expectations and distributed on a balanced/neutral basis.

**Excess of loss reinsurance premium – premium for layer USD 100,000,000 to USD 3,100,000,000**

Reinsurance premium which is passed on directly from reinsurers to members depending on the type of vessel and for tankers the type of cargo carried.

**Mutual Excess of Loss Reinsurance Premium 2019/2020**

Tankers carrying persistent oil as cargo:	USD 0.5747 per GT
Tankers carrying non-persistent oil as cargo:	USD 0.2582 per GT
Passenger vessels:	USD 3.2161 per GT
Other dry cargo vessels:	USD 0.3971 per GT

The Association has elected to cover part of the retention of USD 10,000,000 to further protect our Members' exposure.

**The reinsurance structure for 2019/2020 is thus:**

Association's retention:	USD 10,000,000
Pool:	USD 90,000,000 excess USD 10,000,000
Hydra:	USD 70,000,000 excess USD 30,000,000
General Excess Loss Cover:	USD 2,000,000,000 excess USD 100,000,000
Common Overspill Protection:	USD 1,000,000,000 excess USD 2,100,000,000

**The owners' P&I cover reinsured through the Pool is subject to the following special limits:**

Oil Pollution:	USD 1,000,000,000
Passenger and seamen combined:	USD 3,000,000,000
Passenger (sub-limit):	USD 2,000,000,000

Similar to the policy year 2018/2019, the US oil pollution voyage surcharge will remain at nil also for policy year 2019/2020 and no declarations are required.

**Maritime Labour Convention (MLC) cover**

As a part of the solution developed by the Group clubs to assist and meet shipowners certification requirements under the financial security provisions of the Maritime Labour Convention, the Group clubs have renewed the collectively arranged market reinsurance cover USD 190 million excess USD 10 million at a competitive cost. This will be included within the overall reinsurance cost for 2019/2020.

**War Clause**

All Swedish flagged vessels are subject to the "The Swedish Club Outbreak of War Clause (P&I)", as enclosed.

**P&I – Excess War Risks Cover**

U.S. Terrorism Risk Insurance Act of 2002 as amended ("TRIA"), Special War Risk P&I Cover for Owner's and Charterer's under the Group cover. All Members entered for P&I, or Charter-ers' entries under the Group Cover, are auto-matically covered for P&I War Risks, including acts of terrorism as defined in the U.S. Terrorism Risk Insurance Act of 2002 as amended ("TRIA"). This cover, subject to the definitions in TRIA and acts of terrorism defined by TRIA, will be partly reimbursed by the United States under a formula established by federal law. Under this formula, the United States will pay 83 per cent of covered losses in 2017 exceeding a statutorily established deduct-ible USD 140 million to be paid by the insurer providing cover.

The proportion of the premium attributable to cover for certified acts of terrorism as defined in TRIA is identified under "Premium" below. The War Risk cover is subject to following conditions:

**Reinsurance:** The Association has reinsurance for P&I - Excess War Risks.

**Conditions:** This policy covers P&I risks as defined in the Rules of the Swedish Club, for which cover is excluded from the vessel's entry by reason of the War Exclusion clause contained therein, Rule 11 section 5, but including the following clauses:

- Notice of Cancellation, Automatic Termination of Cover and War and Nuclear Exclusion Clause – Hulls
- Chemical, Bio-Chemical, Electromagnetic Weapons and Computer Virus Exclusion Clause
- Cover may be terminated by the Association giving seven days' notice. Excluding any liabilities, cost and expenses which the Member may incur under TOPIA 2006

**Trading:** Worldwide, but liberty to cancel giving seven days' notice.

**Deductible:** USD 50,000 any one accident each vessel.

### Special Limit for Owners

Where the Member and another party or other parties interested in the operation of the ship are insured under more than one owner's and/or charterer's entry with the Association or with the Association and any other association(s) which participates in the Pooling Agreement and the General Excess Loss Reinsurance Contract, the aggregate of claims brought against the Association and such other association(s) in respect of losses, liabilities, costs and expenses covered under this special war risk P&I cover for owners and/or charterers, shall be limited to USD 500 million any one incident or occurrence each vessel. If such claims exceed this limit, the liability of the Association in respect of each certificate of entry shall be limited to that proportion of that limit that claims recoverable from the Association under that certificate of entry bear to the aggregate of the said claims recoverable from the Association and from such other association(s), if any.

### Special limit for Charterers

As far as charterer's entries reinsured under the Pooling Agreement and the Group's Excess Loss Reinsurance Contract are concerned, the special war risks P&I cover functions as a primary cover. The limit is USD 500 million each incident or occurrence each vessel, provided always that, where a ship is separately insured under more than one charterer's and/or owner's entry with the Association or with the Association and any other association(s) participating in the Pooling Agreement and the General Excess Loss Reinsurance Contract, the aggregate of claims brought against the Association and such other association(s) in respect of losses, liabilities, costs and expenses covered under this special war risk P&I cover for charterers and/or owners, shall be limited to USD 500 million any one incident or occurrence each vessel. If such claims exceed this limit, the liability of the Association in respect of each certificate of entry shall be limited to that proportion of that limit that claims recoverable from the Association under that certificate of entry bear to the aggregate of the said claims recoverable from the Association and from such other association(s), if any.

### Excess:

This policy is to pay claims only in excess of an amount recoverable under the vessel's Hull and Machinery and Crew Marine or War Risks policies, and any P&I inclusion clauses

attached thereto and any other War Risk Cover arranged by the Member. Such a War Risk Policy shall cover the vessel's proper value for hull and include a separate cover for liability up to the same amount or maximum USD 100 million.

**Premium:**

The premium is included in the reinsurance rates quoted, including USD 0.0025 per GT which is deemed attributable for coverage of acts of terrorism as per the terms of TRIA.

**The following clause is deemed incorporated in the P&I**

**– Excess war risk cover:**

**Chemical, biological, bio-chemical, electromagnetic weapons and computer virus exclusion clause**

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, biological, biochemical or electromagnetic weapon.
  - 1.2 the use or operation, as a means for inflicting harm, of any computer virus.

The International Group, however, has decided that Bio-Chem Risks shall be covered through a special pooling facility, which is to cover Members' liabilities in respect of:

- i. damages, compensation or expenses in consequence of personal injury to our illness or death of any seamen; and
- ii. for legal costs and expenses incurred solely for the purpose of avoiding or minimising any other P&I liability arising from a Bio-Chem Risk.

Limit for the special insurance against Bio-Chem risks is USD 30,000,000 per vessel in the aggregate. The detailed terms and conditions of the Bio-Chem cover are to be found in the enclosed Bio-Chem Clause.

Please note that the information in this document is a summary. For more exact and detailed information please contact the Club.

Yours faithfully,



Lars Rhodin

**Enclosures:**

- The Swedish Club Outbreak of War Clause (P&I)
- Notice of Cancellation, Automatic Termination of Cover and War and Nuclear Exclusion Clause - Hulls, etc.
- Bio-Chem Clause



## About The Swedish Club

The Swedish Club is a leading marine mutual insurer, headquartered in Gothenburg, Sweden, with offices in Piraeus, Hong Kong, Tokyo, Oslo and London.

The Club, established by shipowners in 1872, is owned, self-managed and under the direct control of its members. We are a true mutual organisation with a focus on marine safety and loss prevention, with a commitment to furthering an enhanced safety culture at sea.

Global ratings agency A.M. Best has awarded The Swedish Club a Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of "a-", with a stable outlook. S&P Global Ratings (S&P) recently revised its outlook on The Swedish Club to positive from stable. It also affirmed its 'BBB+' long-term insurer financial strength and issuer credit ratings for the Club.

## The All-in-One Club

### Protection & Indemnity

The Swedish Club is a member of the International Group of P&I Clubs and offers full mutual cover on a Group basis. Having handled complex P&I matters for more than a century the Club has gained extensive experience in large casualty response.

### Hull & Machinery

Offering good relationships and close cooperation with our members, we can provide on-site assistance from our in-house surveyors and technical experts. Our team of in-house adjusters offers time and cost benefits to both our members and the Club.

### Other Insurance Products

The Swedish Club offers a full range of insurance solutions for every area of your business. These include Freight Demurrage & Defence and Energy & Offshore insurance, in addition to specialist products such as Kidnap & Ransom and War Risks.

### Loss Prevention

Loss prevention is at the heart of everything we do. We deliver a wide range of loss prevention initiatives, training and information, including the Club's Emergency Response Training, Loss Prevention Guides, benchmarking and campaigns. More information can be found at [www.swedishclub.com/lossprevention](http://www.swedishclub.com/lossprevention).

### The Swedish Club Academy

In conjunction with The Swedish Club Academy we offer our members the benefits of the Maritime Resource Management (MRM) course. Designed to minimise the risk of incidents by encouraging safe and responsible attitudes, the Academy specialises in human factors training and related services for those who have marine safety, efficiency and job satisfaction as their main priorities.

### Marine Insurance Courses

Our popular Marine Insurance Course and Marine Insurance Seminars are offered yearly to members around the world and cover the essential aspects of marine insurance, ranging from terms and conditions to the practical handling of claims and loss prevention.

### SCOL - Swedish Club OnLine

Supporting you 24 hours a day, SCOL is a modern intelligence platform which adapts to your needs and helps inform decision making. Your gateway to The Swedish Club, it provides a comprehensive overview of your insurances and claims records at the touch of a button.