

“Shipowner’s Liability” Insurance

Today, Protection & Indemnity (P&I) insurances have become an indispensable insurance instrument for shipowners to secure their liabilities towards third parties. Among the liabilities covered under P&I insurance, cover for liability towards cargo carried is of great importance, especially for ships intended for cargo shipment.



Marginal commodity prices, which have risen by an average of over 100% in the last decade, and the ongoing upward trend in volume of cargo that ships can carry per voyage, also increase the destructiveness of the damage to be incurred by the shipowners as result of damages and losses to the cargo carried, and it has become even more vital for the shipowner to have their liabilities that may arise from the damage and loss of cargo, covered under an insurance.

However, as with any insurance product, P&I insurance is not designed to provide all risk insurance cover for the shipowner's liabilities. As with all liabilities covered by P&I insurances, cargo liability cover is also subject to certain rules and exceptions determined by the insurers.

When a shipowner is in breach of rules and exclusions agreed with the P&I insurer concerning shipment operations carried out and / or that a shipowner renounces rights of defense granted directly or indirectly to the shipowner by acting in contradiction to shipment contracts to which the shipowner is a party, such acts are considered explicit breaches of P&I cover . Henceforth, such a scenario playing out means that the shipowner, who wants to recoup it's liability against towards cargo interests from it's P&I insurer, has been deprived from taking this path from the beginning.

It is of utmost importance from this perspective that shipowner is in agreement with their P&I insurer in advance that the usual P&I coverage will include such additional risk before such a scenario emerges and a risk of outstanding nature is triggered or, where this may not be possible, to cover such risks exempted the P&I insurance, under a separate insurance policy by purchasing “Ship-owner Liability” (SOL)



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Following his graduation from Istanbul Technical University with a degree in Mathematics Engineering, Umut started his marine risks insurance career in 2005 at Anadolu Insurance Company. He later joined Aon ve Omni as an insurance and reinsurance broker. In 2014 he took the position as Underwriter of Turkish P&I. Umut's responsibilities include establishment of Company's risk and business acceptance criteria, review and guidance of rating practices and application of these practices to both prospect business and portfolio, and ensuring smooth and continuous run of the Company's reinsurance treaty programmes. His articles on various insurance related topics continue to be published in maritime and insurance sector periodicals.



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coverage. Failing in this endeavor prior commencement of risks considered as exclusions, may be cause for a very serious gap in the liability to cargo cover.

Beyond misconception of assuming P&I cover wider than it's actual scope by omitting to review the coverage in detail for particular scenarios, another approach where the shipowner may jeopardize his position even further, is by obtaining a Letter of Indemnity from the charterer. It should be borne in mind, this not only jeopardizes the P&I cover, which may be already aggravated due to the inherent nature of operation itself, and acceptance of the charterer's guarantee is considered as an exception by P&I insurers. Additionally, the shipowner also surrenders itself to the guarantee provided under a letter of Indemnity, the reliability of which cannot be assumed in determining the financial security the letter of indemnity provides in most cases. Furthermore, since any guarantee provided by the charterer does not imply that the cargo interest expressly accepts this guarantee or will release the shipowner from the risks covered by the charterer's guarantee, it is of utmost importance for the shipowner to always aim to have cargo liability coverage in such cases.

Transshipments, which are gradually becoming more complex, and increasing frequency of lightering operations due to the fact that the physical facilities in the ports are not always in parallel with the increasing drafts of the ships are the operations accepted as exclusions by P&I insurers under normal conditions. Likewise, keeping the cargo carried at lightering for a long period prior termination of the shipowner's liability is not considered as an ordinary risk in terms of P&I insurance and assumed as an exclusion to the insurance. Today, the requirements for SOL insurance are mostly needed for similar reasons.

The deviation of the ship from a reasonable navigation route, except in the cases of a life-saving condition, is also considered an exception by P&I insurers, and the shipowner must take out SOL insurance to avoid deprivation of insurance cover if this exception is not specifically covered by the P&I insurer under the P&I insurance.

Shipment of cargo on the deck by contravening B/L and/or other transportation contracts that stipulate cargo shall be carried under deck, or shipment of the cargo on a vessel which deviates than the agreed vessel with the shipowner for the benefit of the charterer/cargo interest due to operational difficulties, are other physical reasons that may cause the ship-owner to require a SOL insurance policy.

When the ship-owner concludes a freight contract that burdens stricter carriage conditions on the carrier compared to the carriage conditions stipulated under the rules of the P&I insurers, the shipowner must obtain SOL coverage in order not to be deprived of cargo liability coverage. Even if the general approach of P&I insurers on this issue may differ according to their own rules, it is often the case that the shipowner does not assume more responsibility than the "Hague-Visby" or "US Carriage of Goods by Sea Act" rules - if the law does not force the ship-owner to agree on different terms.

Regardless of the statutes regulating carriage of goods, it is also possible that the ship-owner may sign bill of lading on the value of the goods, a scenario which can be covered by SOL insurances. In such cases, P&I insurers may demand additional premium, and / or impose serious restrictions for such a shipment, even if insurers agree to extend the P&I cover without additional premiums. In such cases, SOL provides a more flexible and reliable solution to avoid any uninsured or under-insured cargo liability of the ship-owner.

Despite lack of frequent requirement scenarios in comparison to P&I insurances, SOL insurances are particularly beneficial specialist tools allowing continuity of the ship-owner's cargo liability guarantee in exceptional cases and special cases which are not covered by P&I insurances. However, as in P&I insurance, SOL insurance has its rules and exceptions set by the insurers. Therefore, every P&I insurance exception will not be accurate in the sense that it can be insured under SOL insurance. Especially in terms of the validity of the coverage to be purchased by the ship-owner, matters such as conducting trade in accordance with the laws that can be considered indispensable for an insurance with the exception of technical exceptions, or making an accurate and complete information statement to the insurer are of great importance for SOL insurances. In any case, we recommend that the ship-owner inspect the insurance rules and other conditions in detail in cases where SOL insurance is procured and it is sure about the scope of the coverage procured.

