P.L. FERRARI & CO.

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A MEMBER OF THE LOCKTON GROUP OF COMPANIES

NEWSLETTER NO. 6 / 16

Maritime Labour Convention 2006 as amended (MLC)

Amended requirements entering into force on 18th January 2017

The International Group of P&I Clubs

- An Update

21st December 2016

Our last Newsletter 5/16 on the above subject was issued on 24th October 2016. Within the Newsletter we wrote as follows;

Reinsurance for claims falling outside the scope of P&I cover

For those risks not covered under the International Group's pooling facility the clubs have advised that they are at an advanced stage in negotiations with the insurance market for a separate and independent reinsurance that will provide protection to levels which the clubs consider to be sufficient for all but a limited number of fleets which have exceptionally high crew numbers. When the details of this placement are confirmed we shall revert with details.

We take the opportunity to attach also the pertinent extract from the International Group of P&I Clubs recently issued FAQ's and in particular the part which refers to the separate market insurance which the Clubs were seeking to put in place for non-covered risks ;

INSURANCE

11 Is the risk covered by the Rules?

Liability for disability due to occupational injury will normally fall within the scope of standard crew cover under the Rules. Repatriation and unpaid wages will be covered under the Rules in some cases, including when due to a shipwreck. However, repatriation and overdue wages fall outside the scope of P&I cover when arising from abandonment due to a shipowner's financial default.

12. How are wages and repatriation costs under Standard 2.5.2 covered, if outside the scope of Club cover provided under the rules?

The MLC Extension Clause provides that Clubs will discharge and pay claims made by seafarers pursuant to the Certificates. The Clause imposes an obligation on Members to reimburse their Club if the claims which the Club has paid to seafarers fall outside the scope of cover provided by the rules. This is on the basis that Clubs will want to take measures to minimise the risk of bearing the financial consequence of shipowners abandoning their crew.

13. Will Clubs pool liabilities outside the scope of standard Club cover and the Pooling Agreement?

No. The boards of IG Clubs have decided against pooling these risks. They are therefore not poolable and not covered by the IG reinsurance programme.

14. Have Clubs protected their position through reinsurance?

Yes. Reinsurance is being arranged through the IG's brokers. Binding commitments have been given by reinsurers for USD 150m and the IG expect to achieve USD 190m per fleet in excess of USD 10 million per fleet. The combined total of USD 200 million per fleet will be sufficient for all Members, with the possible exception of a small number of fleets with exceptionally high crew numbers.

15. Why is the cover limit "per fleet"?

It is likely that abandonment will be caused by insolvency and will affect a fleet rather than just a single ship in a fleet. Reinsurers require the cover limit to apply on a per fleet basis regardless of how the fleet is split between Clubs.

16. What is the excess under the reinsurance?

The excess is USD 10 million per fleet. If a fleet is entered with a single Club, that Club will bear the first USD 10 million. If a fleet is split between clubs, then each Club will bear a proportion of USD 10 million calculated on a pro rata basis. Clubs will need to cooperate if an event gives rise to claims which may exceed USD 10 million on a fleet basis.

The International Group has now published a communication with regards to the separate placement confirming that the Group Clubs have collectively arranged a market reinsurance cover and that they have manged to achieve the previously prospected US$ 190m per fleet coverage in excess of
US$ 10m.

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