

## **Marine Insurance Risks after “Costa Concordia”**

It has been only few days after the new year has started that we watched in the news a huge tragic and a casualty which seriously concerns the insurance industry. The sinking of Costa Concordia cruise ship off Tuscan coast of Italy on January 13 has already losses which reach about \$1 billion with the bulk of burden going to reinsurers. A big portion of it will obviously cover damage to the ship and the balance will cover personal injuries, liability and environmental losses. Referring to the latter, the losses will be lessened if the fuel oil and lubricants are successfully removed by Royal Boskalis Westminster's Smit Salvage company which started already the pumping of fuel. Weather conditions are important to facilitate the operation otherwise bigger problems and complications may arise.

It is admitted that the wrecked cruiseliner turned out to be the biggest insured loss in maritime history, carrying over 4,000 passengers and crew, killing at least 15 and injuring many others. The insurance world of the ship and her owners has to consider two issues: the two clubs that insure each other for personal injuries and shipwreck as well as environmental damage and the consortium of insurers who underwrite the ship itself. The ship is insured for 405 million euros by insurers among which are GARD, XL, RSA, Generali, AXA, Hannover Re, Allianz and Chartis. Sources in the market state that “the participants on the policy will be fairly well spread across the market” which may also mean that the losses are expected to be easy for the industry to absorb.

London based Standard Club which has confirmed is the leading P&I insurer of the ship is already dealing with the massive liabilities, however all claims greater than \$8million will get pooled within the IG of P&I Clubs which is protected by external reinsurance for claims that exceed \$60 million. With that in mind and considering that the fiscal year for all P&I Clubs is the end of February the Costa Concordia disaster will definitely have a serious crash on all insurance results for this year leaving still unknown how much will fall on the hull side and how much on the P&I market.

It may be possible that the two ship's Clubs will have very little retained premium to pay this loss and is likely that they financially suffer badly this year, especially if big pollution claims arise in case fuel is leaked from vessel's tanks. It is also expected that the reinsurance cost will rise among the 13 Clubs of International Group and the Clubs which insure cruise liners will see their cost of cover higher within the Pool.

It is nevertheless noticeable that other sources refer to the shipwreck as not big enough to dent the insurance industry's capital reserves and the fact that the losses are very well spread in various markets and heavily reinsured as well, the impact on the hull side might not be that catastrophic this year. Yet, the market talks about losses which exceed the ones in Exxon Valdez disaster in Alaska.

Many companies, insurance or other, work on the details of the disaster and it remains to come to firm conclusions on cost or liability issues, still, the timing of the disaster may be proved difficult for some insurers who announced their losses already for 2011. Any

resolution of the claims will not be quick and it is well known to the market that it usually takes years to settle these large marine claims based on costly investigation of liabilities involved.

I can only note that insurance is necessary to anyone's business when such unexpected casualties and other heavy burdened incidents happen which give rise to many liabilities and claims. It is time to consider the importance of insuring ship and passengers, on the other hand, insurance world is suffering with heavy costs which again have serious impact on the insurance rates for owners and ships.

Then again, far from the ship's insurance depressing results, the incident might have an assessable impact on bookings with the season still not started and possibly a long-term impact on cruise industry growth irrespective if even the most sensitive American travelers continue to travel. Owners will obviously assume difficult fiscal year resulted from pretty evident cause that human factor plays the most important role in such tragedies. Other consequences are being discussed on the various market's tables after the disastrous incident including among others, the change of IMO rules for passenger vessels, quality of training given to entertainment and hospitality staff on cruise liners, tighter ship safety procedures, crew training standards etc. to prevent a repeat of Costa Concordia shipwreck. When such catastrophic incidents happen many rules change and immediately insurance markets adjust the risk and the possibility of similar tragedies.

It is official status that this loss will put pressure to marine insurance before the year begun and apparently insurers will have to raise their prices. It remains to see the results.