

# SHIP MANAGEMENT INTERNATIONAL

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## Cyprus:

Shipping at the heart of the island's economic recovery



# Know which insurer you are getting into bed with



**Stuart Munro, CEO of Transport Intermediaries Club (ITIC), explains why ship managers need to take time to understand who insures the ships they manage**

**I**TIC makes it a condition for its shipmanagement members to be co-assured on the hull and P&I policies of the owner because, in many jurisdictions around the world, ship managers are deemed to be the operators of ships.

By being named as a full joint assured on the hull and P&I policies of the owner, the ship manager is only taking advantage of the cover that was offered to the ship owner in the past when the technical function of managing the ship was still in-house. The insurer is not offering any more cover by including the ship manager as a co-assured just because the ship owner has sub-contracted to another company some of the functions it used to perform itself.

Compared to the value of the ship and the hire or freight earned, the shipmanagement fee is a small part of the overall cost of running the ship. Clearly, the manager could not afford to take out a separate P&I and hull insurance to protect its own interests up to the full value of the ship. This is even more of an issue if

that insurance is already available, for no additional cost, as part of the owner's usual marine insurances.

ITIC is there to cover claims of negligence against the manager arising out of the management of the ship. These are usually matters that would not be covered under a P&I or hull policy, such as a technical issue at drydocking, fraud by staff, post-fixture errors, or operational errors. ITIC therefore makes it a requirement for a ship manager to be co-assured, not to avoid claims for negligence against the manager – that is what ITIC insures - but to protect the manager from claims that are the responsibility of the owner.

Until recently, ITIC approved only International Group P&I insurers. It is only in the last few years that it has included non-mutual or fixed-premium P&I insurers rated either A- or above, but with the added proviso that this is at the sole discretion of the managers of ITIC. The quality of some of the fixed-premium P&I providers is variable, to say the least, hence

ITIC reserves the right not to approve a ship under management with some P&I insurers. This happens very rarely as it is in the best interests of ship managers that they manage only ships entered with a P&I insurer they can trust.

ITIC's cover includes an element of contingent P&I insurance to members, particularly ship agents (who have no choice as to who is the insurer of the ship) and to ship managers, who do have a choice as they can choose not to manage that ship.

A ship agent is not deemed to be the operator or owner of the ship (except in a handful of jurisdictions), but the ship manager is always considered to be the operator of the vessel and so faces the same exposure as the ship owner. If that ship manager decides to accept, under its management, a ship whose owner has selected a P&I insurer of dubious merit or one which ITIC, or the manager's insurance broker, has little knowledge of, ITIC believes that it is prudent for ship managers to consider whether this is the sort of business they want to take on.

Ship managers may find themselves paying a P&I claim not paid by the ship owner's insurer and so the ship manager is exposed. A ship manager may be based in a variety of accessible legal jurisdictions (for example, the UK, Singapore, Hong Kong), whereas the ship owner often is not.

Ship managers need to take time, with the assistance of their insurance brokers, to understand who insures the ships that they manage. If the investigation leads them to conclude that the insurer isn't as robust as others in the market, ship managers need to decide whether managing that ship is the right commercial decision for them. ●

