



May 2020

COVID-19 Update

Dear Clients,

We would like to take this opportunity to extend our further best wishes to you, your families and your colleagues during this continued difficult time. The COVID-19 virus has had an unprecedented human and economic impact on the world, and there are significant challenges faced by many sectors resulting from travel restrictions, disruption to global operations and a falling oil price.

Hopefully, you will have received a copy of Aon's earlier bulletin providing guidance on how P&I cover may respond to liabilities costs and expenses arising out of COVID-19 incidents. As mutual associations, the P&I clubs have historically been and continue to be in a strong position to support their shipowner members through challenging times. We would like to update our clients on the additional support available and advise where Aon has taken steps to assist our clients in collaboration with the IG Clubs.

Laid up returns

Some clients may need to lay up ships during this period of economic slowdown. Under the P&I club rules, clubs are able to grant premium credits for vessels that are in 'hot' or 'cold' lay-up. These credits vary but, as a general guide, range between 50% and 90% after netting out an allocation for group reinsurance costs. Whilst club lay-up requirements vary, generally, to qualify for a return, a ship must:

- Have either no, or only very minimal crew on board (depending on whether applying for hot or cold lay-up, cold lay-up will usually require no crew on board)
- Have no cargo on board
- Provide evidence of safe lay-up
- Be laid up for a period of at least 30 days

If your vessels are laid up during this period, or you are considering laying up ships, we would be happy to advise you on your club's position on lay-up credits and whether vessels are eligible for a return. Whilst not required to do so, given the unique environment, clubs may also consider offering some support to policies that are cancelling returns only.

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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Material change in risk

Where a vessel's operating status does not fit within the club's requirements under the lay-up rule, a premium credit may not be automatically available. However, if there has been a material change in the risk presented by a vessel, a club may consider, in some cases, recognising that reduction in risk by way of a reduced premium. This is something we have successfully negotiated in certain cases on behalf of our clients with the support of the clubs.

Instalments

In recent months many clients will have suffered temporary but potentially severe disruption to cash flow. Whilst regulation will put some limits on what can be done by the clubs to assist members here, many clubs have been able to adjust instalments to try to support their members. As an example, Steamship Mutual agreed to push back its first instalment to May across the entire membership to allow additional time to deal with the immediate challenges. Gard has also deferred the decision to call the last instalment for the 2019 policy year, in full or in part, until the Board of Directors' meeting in November 2020. Instalment flexibility is something other supportive clubs have also offered but on a case by case basis where needed. Some clubs may also consider custom instalment plans for clients where disruption to cash flow is expected to be over a longer period. This demonstrates the support and flexibility financially robust clubs are able to offer to assist their members.

Suspension of non-essential covers

Whilst suspension of any cover should be considered very carefully, some vessel owners may also want to review the P&I related extensions being purchased. It may be possible that for certain types of trades, these covers can potentially be suspended while the vessels are laid up or on altered trading patterns. Covers can then be re-activated when needed. This will obviously depend on the cover being provided and how flexible the provider or reinsurer of that cover is willing to be.

Claims

Unsurprisingly, claims resulting from COVID-19 have taken the industry into a new chapter and with that a degree of uncertainty as to what is and is not covered. Whilst viruses are not new, it is the aggregation that strikes fear into insurers.

Largely the shipping industry is operational though naturally faces logistical issues. The pandemic has brought cruise and passenger sector to a standstill and with that, mounting losses with delayed or cancelled passages. Leaving aside the loss of revenue, the cost of caring and repatriating of crew and passengers is crippling, with many operators having to charter aircraft.

When there are diagnosed COVID-19 passengers and crew on board, the clubs have looked to reimburse losses of repatriation and sanitising the vessel, along with numerous other costs and expenses. However, what is the position if there isn't a diagnosed case of COVID-19? Here the picture isn't so clear. Obviously, no two cases are exactly the same, but the well-being and safe return of passengers and crew are paramount and costly. Justifiable sue and labour costs will also be a considerable factor in all of this. Whilst the cruise sector will post the largest losses, many commercial shipowners are also facing heavy costs and expenses.

In cases where there isn't a proven COVID-19 case, the 'trigger point' to engage the Rules is missing, with no clear third party liability. There are some additional covers that can be bought that go some way to addressing these losses, along with 'business interruption' programmes. However, these were never designed for the likes of COVID-19, and indeed many already have a pandemic exclusion.

We expect the Group will, as they have done in the past, adopt a flexible approach to claims that whilst fall outside of the Rules are deemed to be within the spirit of them. The so-called Omnibus rule. However, given there are so many claims of a similar nature, it is understandable the Group wants to take a unilateral approach. Something we understand is well underway. Each and every club in The International Group has always sought to find ways to pay a claim, and we see no difference here, once again demonstrating the strength of mutuality.

Where does that leave the Group in the event market reinsurers impose a pandemic exclusion? The International Group Reinsurance programme was renewed on a 'two year' basis from the renewal and follows all settlements made by them.

Loss prevention and resources

The International Group clubs continue to be an excellent resource for loss prevention material on COVID-19 and continue to post helpful guidance and best practices for members to review. Many clients will also be aware that the International Group has launched a new, publicly available online COVID-19 dashboard. This dashboard allows owners and charters to track up-to-date country and port-specific advice, detailing the measures being put in place in response to the COVID-19 pandemic.

Access to this online dashboard is available at the following link:
<https://www.igpandi.org/covid-19>

Please also find a link to Aon's COVID-19 response site which many of our clients may find useful:
<https://www.aon.com/event-response/coronavirus.aspx>

Finally, whilst for the time being, we are unable to meet our clients in person, we fully appreciate the difficulties that most businesses are facing, and we remain here to offer our continued help and support to you during this challenging time. Please don't hesitate to get in touch if you have any questions.

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