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Insurance Day, Christchurch Court, 10-15 Newgate Street, London EC1A 7HD

Editor: Michael Faulkner
+44(0)20 7017 7084
michael.faulkner@informa.com

Deputy editor: Lorenzo Spoerry
+44 (0)20 7017 6340
lorenzo.spoerry@informa.com

Editor, news services: Scott Vincent
+44 (0)20 7017 4131
scott.vincent@informa.com

Global markets editor: Graham Village
+44 (0)20 7017 4020
graham.village@informa.com

Global markets editor: Rasaad Jamie
+44 (0)20 7017 4103
rasaad.jamie@informa.com

Business development manager: Toby Nunn	+44(0)20 7017 4997
Head of production: Liz Lewis	+44 (0)20 7017 7389
Production editor: Toby Huntington	+44 (0)20 7017 5705
Subeditor: Jessica Sewell	+44 (0)20 7017 5161
Events manager: Natalia Kay	+44 (0)20 7017 5173
Editorial fax:	+44 (0)20 7017 4554
Display/classified advertising fax:	+44 (0)20 7017 4554
Subscriptions fax:	+44 (0)20 7017 4097

All staff email: firstname.lastname@informa.com

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Sirius warns Jebi will cost market more than $10bn after Q4 loss creep


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Typhoon Jebi hit Japan in September last year

Bermudian firm added $43m to its Typhoon Jebi reserves


Scott Vincent
Editor, news services

Bermuda-based Sirius International said it expects market-wide losses for Typhoon Jebi to exceed $10bn, having added $43m to its reserves for the event during the fourth quarter.

The additional reserving brings Sirius' total loss for the event to $91m. In addition, the Bermudian group reported loss creep of $7m for Typhoon Trami and $3m from Typhoon Mangkhut during the quarter.

Sirius' fourth-quarter catastrophe bill totalled $114m. In addition to the Japanese reserve deterioration, this also included $36m of Hurricane Michael losses and $12m related to the California wildfires.

The re/insurance group reported a combined ratio of 127% for the fourth quarter of 2018, compared with 91% during the 2017 fourth quarter.

In addition to a 33 percentage point impact from catastrophe losses, the combined ratio was also negatively impacted by five percentage points of unfavourable prior-year loss development.

Gross written premiums grew 11% to $303m during the quarter, which was attributed to growth in the group's specialty/casualty and run-off segments.

Sirius' global property segment recorded a quarterly underwriting loss of $92m, while its specialty/casualty segment saw an underwriting loss of $10m, attributed to current accident year losses on the aviation book.

For the full year, Sirius reported a combined ratio of 103%, a five percentage point improvement on 2017.

Gross written premiums grew 27% to $1.82bn for the full-year period, with catastrophe losses totalling $194m.

Sirius became a publicly listed company during the fourth quarter of 2018 following the closure of its merger with Easterly Acquisition Corporation.

The period also saw the addition of Gallatin Point Capital, The Carlyle Group, Centerbridge Partners and Bain Capital Credit as cornerstone investors in the group.

NEWS

ProAssurance considers reducing capital backing for Dale syndicate 1729

Option of bringing in additional capital providers being considered for 2020 as part of review of Lloyd's business

Scott Vincent
Editor, news services

> **'As we work towards 2020, one of the things we will evaluate is whether to reduce that capital commitment by bringing other capital providers into the syndicate'**
>
> **Ned Rand**
> **ProAssurance**

ProAssurance said it will consider whether to reduce its capital support for Dale Underwriting next year as part of its review of its investment in the Lloyd's insurer.

The US specialty insurer warned earlier this month that it was reviewing its investment in Dale as it was "deeply disappointed" in the performance of the Lloyd's business, which operates syndicate 1729 and SPA 6131.

Stan Starnes, ProAssurance's chairman and chief executive, said on the company's fourth-quarter earnings call the group's evaluation of its options will be "comprehensive", and these could include a reduction in the capital provided for the syndicate or increased reinsurance purchases to protect against the volatility of its results.

Starnes said ProAssurance continued to believe the decision to invest in Lloyd's was valid, but said the group was concerned about the volatility of the results.

Ned Rand, the group's president and chief operating officer, said the group's $200m capital commitment to Dale was not under threat for the 2019 year.

"We will evaluate whether we can use reinsurance to dampen some of the volatility that we have seen, and we can effect that at any time," he said.

"As we work towards 2020, one of the things we will evaluate is whether to reduce that capital commitment by bringing other capital providers into the syndicate," he said.

ProAssurance's fourth-quarter results included a catastrophe impact of more than $10m, driven by syndicate 1729.

This included $6.8m related to Hurricane Michael, as well as $3.2m attributed to volcanic eruptions in Hawaii and Hurricane Florence.

The group's Lloyd's business produced an accident year combined ratio of 104.5% for the quarter.

Syndicate 1729, which has a stamp capacity of £140m ($182.8m) for the 2019 year of account, writes a US-focused book of property, casualty and reinsurance business.

ProAssurance provides 62% of the syndicate's capital, up from 58% at the beginning of last year.

The company also has a "small" ownership interest in Dale Underwriting Partners.

In addition, the group is the sole capital provider to Dale Underwriting Partners' SPA 6131, launched in 2018, which focuses on contingency, sports personal accident business and niche property.

The fourth-quarter catastrophe losses were attributed to syndicate 1729 rather than SPA 6131.

ProAssurance reported a fourth quarter net loss of $24.5m, compared with net income of $17.3m in the fourth quarter of 2017.

In addition to the Lloyd's catastrophe impact, the group also recorded $46.1m of realised investment losses, but grew its gross written premiums by 10.4% to $211.7m.

Beazley syndicate bucks trend with 2016 improvement

Beazley bucked a market trend and closed the 2016 year of account of its syndicate 623 with a result at the higher end of expectations, *writes Lorenzo Spoerry.*

The account closed with a profit equivalent to 8.7% of its £257.3m ($335.9m) of capacity. It had earlier forecast a profit in the 0% to 10% range.

Beaufort syndicate 318, Coverys syndicate 1991, and Catlin SPA 6111 all closed their 2016 years of account with a single-digit-percentage decline against forecast. All declared a loss.

The 2016 account of Standard syndicate 1884, which stopped trading last year, closed down 10.1% from the midpoint of its earlier forecast. It reported a loss equivalent to 40.1% of its £90m capacity.

That syndicate also reported a 20 percentage point decline against expectations for its 2017 year of account.

It now anticipates a loss of between 42.5% and 57.5% of its £99.99m capacity.

Cash calls are due on both years of account.

PartnerRe reports double-digit premium growth at 1/1

PartnerRe president and chief executive, Emmanuel Clarke, said the Bermudian reinsurer is seeing increasing opportunities to deploy capital, after reporting double-digit year-on-year growth in non-life premium production at the January 1 renewals, *writes Scott Vincent.*

Clarke said the reinsurer had seen improved margins across several classes and geographies at 1/1, with an increasing number of opportunities now meeting the reinsurers targeting returns.

> **$47m**
> **Underwriting full-year loss for PartnerRe's non-life business in 2018**

This followed 11% growth in non-life net written premiums during 2018, which was driven by property/casualty growth of 15% and 5% growth in the group's specialty segment.

The group's non-life business produced an underwriting loss of $47m for the full year, driven by catastrophe losses of $386m related to Typhoon Jebi, hurricanes Florence and Michael and the California wildfires.

This compared with an underwriting loss of $96m and catastrophe bill of $569m during 2017.

Positive prior-year development of $249m was down from the $448m recorded in 2017.

A full-year combined ratio of 101.9% represented an improvement of 0.4 percentage points compared with 2017.

In the group's property/casualty segment, PartnerRe recorded an underwriting loss of $189m for the full year, with a combined ratio of 108.7%.

Net written premiums in the property/casualty segment rose to $2.72bn, compared with $2.37bn during 2017.

Net written premiums were also up in the group's specialty business, rising to $1.87bn from $1.78bn in 2017.

The specialty segment recorded a full-year underwriting profit of $142m and a combined ratio of 91.9%.

For the fourth quarter, the group recorded a non-life underwriting loss of $7m and combined ratio of 106.7%, driven by $282m of losses from Hurricane Michael and the California wildfires.

The property/casualty segment recorded a quarterly combined ratio of 120.1%, with specialty reporting a combined ratio of 90.5% for the three-month period.

At group level, PartnerRe reported a net loss of $32m for the quarter and $132m for the full year.

FOCUS/PROTECTION & INDEMNITY

Clubs team up to mitigate autonomous shipping risks

The P&I sector is working hard to broaden its insight into both the opportunities and risks associated with autonomous vessels

Jarle Fosen
Gard

Human error is the most frequently reported cause of marine casualties. The question faced by the marine insurance sector is whether taking humans away will reduce the number of casualties and result in lower premiums for shipowners or operators.

What is certain is the human element will not disappear. It will shift from ship to shore, where the remote operator exists and where the software design and updating takes place. Cyber gains prominence as a risk factor via this shift, given the communications link between the ship and humans on shore.

Uncertainties connected with ship values, regulations, jurisdiction and all other risks in shipping will still be in play. Therefore, although there may be a shift in the way a risk is rated, much will depend on the yet-to-be-seen direction of the shift.

The International Group of P&I Clubs has established a working group on autonomous ships. This group is also participating in the Comité Maritime International (CMI) working group on unmanned ships that has published a position paper on autonomous ships. At Gard, for example, we are exploring and supporting the development of emerging technologies, including maritime autonomous surface ships.

In parallel, the CMI is also participating in the reviews being undertaken within the International Maritime Organization's Maritime Safety and Legal Committees. Our most recent contribution was sharing our insight with the joint project between CORE Advokatfirma and Cefor. It was published on December 10, 2018 and entitled "Maritime autonomous surface ships: Zooming in on liability and insurance".

2022
The date by which Gard's vessel will be ready to load cargo and navigate autonomously

Collaboration

At Gard, beyond our internal research and legal workgroups, we are also active in industry collaboration, a concept we view as critical to the safe implementation of autonomous vessels.

Loss prevention and risk assessment teams are looking into how human factors and technology are influencing the maritime industry, including autonomous ships. The aim is to broaden the industry's insight into both the opportunities and risks, and to address key issues.

Gard was involved in the establishment of both the Norwegian Forum for Autonomous Ships (NFAS) in 2016 and later the International Network for Autonomous Ships (INAS) in 2017.

The objectives of NFAS are to strengthen the Norwegian cooperation between the academic community and researchers, regulatory authorities and industry partners that are interested in the human factors, safety, technology and regulatory aspects of autonomous ships and their use. This includes research and innovation strategies, rule development, testing and qualification principles and national test facilities.

Similarly, at an international level, the objective of INAS is to be an international informal forum where national and regional interest organisations can participate and contribute by sharing research and knowledge on autonomous ships. Gard have been actively engaged not only in the Norwegian forum, but also in many of the other national forums.

The Nordic countries are leading the way in this area. For example, Gard is working with Yara International (Yara) and their newly established company Yara Birkeland AS, which is developing an autonomous logistics project, also called Yara Birkeland.

The construction of the zero-emission autonomous container ship has already begun. When the ship enters service in early 2020, she will be operated by onboard crew while the autonomous systems are being tested and certified safe. By 2022 she is expected to be ready to load cargo and navigate autonomously without crew onboard. The domestic voyage will be between the Yara factory at Herøya and the ports of Brevik and Larvik in Norway.

Once in service, the Yara Birkeland will transport bagged fertiliser in containers thereby removing around 40,000 annual truck journeys from the roads. With an expected increase in production at the Yara factory of 25% from 2018, the logistics shift from land to sea will greatly reduce nitrogen oxides and carbon dioxide emissions, and improve road safety in the area where the trucks currently operate.

The insurance industry is working hard to be part of the problem-solving force behind autonomous vessels and continues to be a leader in this innovation. The idea is that we support sustainable marine development and we deliver on this together as an industry.

Ironically, Gard's creation in 1907 was a rejection of "new" technology as the association was formed by shipowners who rejected steam ships and wanted a P&I club dedicated only to sailing ships. Today, 111 years later, we are embracing new technology by collaborating and learning with those developing autonomous ships, as well as regulators and academia on the national and international stages.

It is only by working together that we can enable sustainable maritime development and get a common understanding of what the arrival of autonomous surface ships on the horizon will bring to us. ■

Jarle Fosen is a senior loss prevention executive at Gard

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P&I clubs stay in favour despite headwinds


Keith Michael Taylor/Shutterstock.com

More efficient reinsurance arrangements delivered a cost saving for members, in spite of a tough environment at renewals

Ståle Hansen
Skuld

Large claims were a defining characteristic for the protection and indemnity (P&I) sector in 2018. Obviously, each was unwelcome, but together they have served to underline the strength of the mutual P&I club system, and its co-operative risk-pooling mechanism through the International Group.

Like much of the rest of the international insurance sector, the P&I system has been tested, and proven robust. Even after the 2018 claims experience, plenty of headroom remained for mutual coverage of even greater catastrophic marine liability events.

That said, repercussions have been felt in the wake of large losses, which seem over the years to fall randomly to the 13 P&I club members of the International Group. One is that the cost of pool claims increased significantly in 2018. That has had an impact on the pooling contributions that all clubs must bear.

Another negative experience over the course of the year was increased volatility in the finance sector. Attributable in part to rising interest rates and the resulting reduction in the value of fixed-income securities, P&I clubs' investment income was in general under par. All clubs hold significant invested assets, so each was affected by disappointing investment performance. However, all remain financially strong, as clubs' resources are more than adequate to deal with this turn of events.

Lower margins

Together with generally lower margins on P&I premium income, these factors have led to a tougher P&I renewal than owners have experienced in recent years. Like other insurance classes, the P&I market is experiencing a hardening trend. However, the combination of lower margins, volatile investment returns, and increasing loss severity caused only one P&I club to lead the 2019 renewal with a general rating increase. The P&I system has absorbed these costs in the current renewal, but a further hardening of rates can be expected in the future.

Skuld has seen, in general, a stable or even reducing frequency for all claims, but behind this lies increased volatility, and a tendency to rising severity for larger claims. This is unlikely to abate, as several factors continue to drive up the costs of bigger loss events. One is an increased regulatory focus on environmental claims, which pushes up the costs arising from significant casualties. The cost of crew and passenger liabilities, which are a significant part of total P&I claims, have also increased. It is too early to identify a sustained upwards trend in overall pooling costs, but severity on individual claims continues to rise.

Happily, the global reinsurance market's appetite to participate in the International Group's outwards reinsurance programme remains high. The Group conducted a tender process before appointing the brokers responsible for structuring and marketing the placement for the 2019 renewal. The incumbent brokers were selected to continue, but their role has changed somewhat. They now collaborate on the entire programme, rather than delivering portions of the overall reinsurance scheme separately.

That new, cooperative approach has proved successful. It has brought a more dynamic approach to the International Group's overall reinsurance strategy and programme, and a more holistic consideration of clubs' risk appetite and retention. That has led to greater cost efficiency overall. The exercise has worked well, delivered a saving for members, and I compliment the brokers selected.

Meanwhile, quality buyers amongst the individual clubs have been able to achieve rate reductions on the reinsurance of their retentions but, overall, we see a flattening of reinsurance rebates due to the uptick in large claims. Alongside continued widespread appetite to participate, the key reason reinsurance costs have not increased is that most of the large claims stayed within the pool and did not hit the group reinsurance layers.

Fixed premium in decline

As the club system flourishes, the fixed premium P&I market is declining. It has been extremely competitive among a large number of players, but that number has fallen. This is a result of two factors: too many players underwriting at unsustainable rates, but also the fact that most shipowners with vessels over a certain size favour the mutual club system. They prefer it because of the size of the limits offered, and the efficiency of the mutual premium spend delivered by the pooling system. A few years ago, some clubs feared that the fixed premium market would erode the mutual share significantly, but this has not come to pass. Instead, several fixed premium clients have moved or returned to the mutual P&I system and the International Group.

Another trend that has not materialised is consolidation within the mutual sector. Skuld is, and always has been, open to discuss consolidation with potential industry partners, but amalgamation of clubs has been difficult to achieve, since clubs are member-driven. Shipowners have strong ties to their clubs, which in P&I has stalled the consolidation trend seen in other segments of the insurance industry. We believe size matters increasingly for clubs that wish to deliver cost efficiency and we would welcome some consolidation in the market, as long as enough choices remain for shipowners.

The strategy of underwriting diversification has been more successful for clubs. Of the 13 P&I clubs that are members of the International Group, about half are pursuing a diversification strategy, and the others are staying broadly mono-line.

Skuld launched its diversification plan about 15 years ago, after identifying the importance of providing additional services to members while developing new income streams. Both allow Skuld, and other clubs, to build volume levels that should ensure they are sustainable for the future.

This new approach is just one reason why the P&I system remains robust, favoured by shipowners, and is the world's leading market for marine liability insurance. Few changes are likely in 2019. Most owners seem set to remain with their existing clubs, so a stable renewal is expected, perhaps as owners and intermediaries anticipate a slight hardening of rates. That bodes well for a continued healthy P&I market for many years ahead. ■

Ståle Hansen is president and chief executive of Skuld

FOCUS/ PROTECTION & INDEMNITY

P&I pricing under scrutiny as clubs review strategic options

The sector is undergoing important secular changes

Joe Hughes
Shipowners Claims Bureau

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Last year was a transitional one for protection and indemnity (P&I) insurers. The era of moderating claims that started in 2014 showed signs of ending by the middle of 2018. The year featured anaemic investment returns as an ageing bull market for stocks began to lose momentum. At the same time, premium pricing struggled to gain upward traction as freight markets faltered.

These trends have continued into the early part of 2019. They suggest a different market tone for the next 12 months and beyond.

The conduct of the February 20, 2019 renewal was largely informed by the commercial realities of earlier years. Since virtually all International Group clubs opted for zero general increases, there is unlikely to have been any substantial growth in overall premium. And recent perturbations in the fixed premium P&I market have caused realignments that may have a bearing on future profitability for several insurers in that sector.

The renewal period itself appears to have been comparatively tranquil. Although some changes in the constituencies of individual clubs occur from year to year, they tend to be modest.

Preliminary indications suggest only limited transfers of tonnage over recent weeks. This, coupled with a more subdued expansion of the global fleet over the past year, suggests most clubs will emerge from the renewal season with largely unchanged portfolios in tonnage and premium terms.

However, 2019 may prove to be the last renewal featuring muted premium growth. There are emerging indications of greater pricing power in the hull markets and – against a background of less reliable investment returns and signs of claims inflation – these may signal future P&I premium increases.

Until mid-2018, most clubs had for several years seen falling attritional exposures as well as a decline in the frequency of large claims, particularly those affecting the International Group's pool. While the longer-term development of routine exposures remains to be seen, the incidence of larger claims has risen markedly over the past six months. Several of these losses have attracted extensive media attention. Whether this will prove to be a temporary aberration, or reversion to the mean of earlier years, is uncertain. But they may indicate the start of a deteriorating claims climate, and sensible planning for a future of greater exposure should certainly be on the prudent insurer's agenda for the year ahead.

Sensible planning for a future of greater exposure should certainly be on the prudent insurer's agenda for the year ahead

A factor in maintaining comparative softness in premium rating over recent years has been the steady reduction in the International Group's market reinsurance costs. Indeed, by the outset of 2018, clubs had saved their members some $100m in the cost of the group's reinsurance over the previous three years. As widely reported, 2018 saw some reorganisation of the group's broking arrangements. But the main takeaway from the recent renewal was that substantial capacity continues to be available to the group.

Diversification

A recent industry theme has been the growing diversification of group clubs into new areas of underwriting. Some have begun to provide hull insurance, and some fixed premium P&I products, particularly for those operators to whom the mutual system might neither be appropriate nor hold particular appeal.

As to the provision of hull cover, a number of clubs have set up syndicates at Lloyd's of London, some more successfully than others. Some have acquired legacy business from pre-existing underwriters and transformed it into new insurance capacity. The development of fixed-premium facilities has also featured within the group club world over recent years, some as discrete club brands, others by way of binding authorities for third-party insurers.

Opinions vary as to the virtue of diversification of this kind. However, the proponents of this policy point to the benefits available to mutual members. While those members' interests must remain paramount in setting that policy, the benefits to be derived from diversification include using non-mutual profits to strengthen the bottom line generally; creating opportunities for cross-selling and gaining market share; generating flexibility of response to market challenges; and developing insurance relationships of ancillary value to mutual members.

However, implementation in practice must be consonant with a club's values, vision and market positioning; be within the technical skill sets of the club and its managers; be capable of accommodation within existing operational structures; be managerially cost-effective and transparent; not distract from the club's core mission; avoid underwriting and other commercial conflicts; and be accomplished with prudent risk selection and pricing.

For all marine insurers, the regulatory challenges of 2018 will continue to feature over the years ahead. Of particular concern is the implementation, as of January 1, 2020, of the International Maritime Organisation's sulphur cap on fuels (*see p7*). Ballast water management systems represent another area of regulatory engagement. All clubs are assisting members as best they can in terms of loss prevention initiatives, charterparty and other contractual advice, and the implications for cover which the new regulations will entail.

In a rather different context, the embargoes on Iran, North Korea, Syria and other countries which are variously subject to US, EU and UN sanctions will continue to bear upon the operations of shipowners in a manner which affects not only the pattern of their trades, but also the insurability of the exposures they may encounter along the way. As always, great caution will be required of shipowners in making the correct business decisions in this regard.

There will, inevitably, be further issues which will impact the shipping industry – and by extension their P&I insurers – in 2019 and beyond. Some of them may emerge in unpredictable and capricious ways. However, 2019 has begun differently from the year that preceded it, and will no doubt develop in a different fashion from its recent predecessors. But by the time 2019 ends – and the 2020 P&I renewal comes into view – it is possible we may be viewing a P&I landscape that in some respects will bear little resemblance to that of the recent past. ■

Joe Hughes is chairman and chief executive of the Shipowners Claims Bureau, Inc, the managers for the American Club

Sulphur cap regulation will increase P&I exposure

The risks associated with the abrupt transition to a cleaner fuel regime could give rise to large P&I claims for wreck removal, pollution, crew and discretionary fines

Eddy Morland
Standard Club

The best way to ensure that global shipping operates safely and efficiently is through international regulations and supporting national legislation. This is reflected in the International Maritime Organisation's (IMO) stated mission, "to promote safe, secure, environmentally sound, efficient and sustainable shipping through co-operation".

Since the IMO's formation, it has adopted a number of conventions which have made shipping safer and protected the marine environment.

Multiple stakeholders in the marine industry are aligned in their commitment to make shipping safer, more environmentally friendly and more efficient. Many are spearheading initiatives that are advancing this mission without convention or legislation forcing them to do so; for example, the use of alternative fuel sources, ship design, safety initiatives and environmental projects.

On January 1, 2020, Regulation 14.1.3 of Annex VI of the Marpol Convention ('IMO sulphur cap') adopted by the IMO in 2016 will come into force. The IMO sulphur cap prohibits not just the use, but also the carriage, of bunkers above 0.5% sulphur unless the ship has been fitted with equivalent means to comply.

The carriage ban is set to kick in on March 1, 2020. Charterers will have to ensure that any non-compliant fuel is discharged from the vessel's bunker tanks by March 1, 2020 at the latest and owners then have the obligation to clean such tanks to receive compliant fuel thereafter.

Under mounting pressure to reduce sulphur emissions, this might be seen as simply the next step since the adoption of Annex VI of the Marpol Convention on May 17, 2005 to further reduce air pollution from ships and the introduction of emissions control areas. In fact, the implications of this change cannot be underestimated, and, for most stakeholders, they remain unknown.

Unlike any other fuel transition in maritime history, wind to steam or coal to oil, this change will not be gradual or phased. The IMO sulphur cap will definitely come into force on January 1, 2020.

The world's shipowners and operators are having to make decisions now so they will be able to comply. The industry is widely concerned that any decisions they make may have unintended consequences. The word "uncertainty" is ever present in most articles about the IMO sulphur cap.

There are operational and technological challenges associated with all of the methods for compliance, be it compliant distillate fuels, blended fuels, scrubbers or alternative fuels. There are risks associated with all methods that cannot be overlooked and deeply concern the shipping industry, owners, operators and their insurers. There are many who question whether the IMO sulphur cap ever contemplated the implications.

If these risks [to safety] are not managed, safe shipping and the environment could be threatened, two of the very things the IMO was established to protect

Failure to manage any issues associated with anything from fuel availability, stability and compatibility challenges to scrubber installation, operation and maintenance could result in costly delays, fines and, worse still, loss of power resulting in groundings. This could have serious implications for protection and indemnity (P&I) insurers who provide a broad range of covers to owners and charterers, including defence and charterers' damage to hull. For example, main engine damage could give rise to large P&I and other claims for wreck removal, pollution, crew and discretionary fines. To better illustrate how material the risks could be, one only has to look to recent incidents where contaminated fuels led to the loss of power putting the crews, ships and the marine environment all at risk.

In complying, there will, undoubtedly, be unpalatable cost implications for owners and operators, which many can little afford, but it is the associated risks to safety that will have to be managed that most concern the shipowners, operators and their insurers.

If these risks are not managed, safe shipping and the environment could be threatened, two of the very things the IMO was established to protect.

Fortunately the stakeholders in the shipping industry are suitably dynamic and flexible that they will endeavour to find solutions that ensure they meet these targets and comply while managing any risk to crew, machinery or the environment.

That said, the burden on shipowners and operators is enormous and must not be forgotten. They are working tirelessly with the many stakeholders in their business to ensure the IMO sulphur cap does not have any of the unintended consequences many fear. ■

Eddy Morland is head of division – international, at the Standard Club

There has been mounting pressure to reduce sulphur emissions and air pollution from ships

Alexei Novikov/ Shutterstock.com