

IMO 2020: the risks facing those that insure tankers

David Roberts, managing director of Charles Taylor Mutual Management (Asia), which manages The Standard Club Asia Ltd, discusses the risks facing tanker insurers from IMO 2020



David Roberts (Charles Taylor / Standard Club Asia): IMO 2020 has risks for insurers, too

Tanker Shipping & Trade: From a P&I Club perspective, what are the developing risks facing tanker owners?

David Roberts: The most significant concern facing ship operators is IMO 2020 compliance. P&I clubs, which insure owners and charterers for their third-party liability risks, are mindful of the impact that IMO2020 may have on claims. In particular, there is a risk of an uptick in cases of fuel contamination and associated engine problems, which in turn could lead to higher levels of claims activity.

Tanker Shipping & Trade: How would this arise?

Mr Roberts: The vast majority of ships will look to burn a blended or hybrid fuel that combines a 'clean' distillate fuel with HFO. The rapid rise in the use of blended fuels will lead to higher risks of compatibility issues if 0.5% fuels from different origins are comingled on a ship, which could lead to fuel contamination and associated engine problems. For example, a tanker suffering main engine failure in a busy shipping lane or port might lose navigational control and collide with another ship, or ground or come into contact with port infrastructure or other property. Resulting third-party claims would fall within the scope of P&I cover and, in the worst case, could involve multi-million dollar losses.

Tanker Shipping & Trade: Are there other risks the P&I Clubs face from tankers?

Mr Roberts: We also insure charterers. In many cases, the charterer is paying for and providing the fuel. There will typically be warranties in the charterparty making the

charterer responsible for providing fuel of the correct specification. There is a very real risk that there could be a shortage of compliant marine fuels available on the market.

Owners, who have overall responsibility for 2020 compliance, are very dependent on charterers to procure the right type of fuel. If the charterparty is not clear, disputes could arise. Further, if the fuel is not of the right quality and there is damage to the engine, and consequent damage to third parties, then the shipowner might be able to pursue an indemnity claim against the charterer to recover his losses, if he is able to establish a breach of contract. In simplified terms, the shipowner could hold the charterer responsible for all the losses arising from such a breach of contract. We cover such liabilities under a charterers' damage to hull policy.

Tanker Shipping & Trade: Are there other risks associated with IMO 2020?

Mr Roberts: Another risk we face is an increase in Freight, Demurrage & Defence (FDD) type disputes. Standard Asia provides FDD cover, which is essentially a legal expenses insurance, and we see the potential for an uptick in claims in this area.

Tanker Shipping & Trade: How do you see IMO2020 being enforced?

Mr Roberts: There is uncertainty as to how IMO 2020 will be enforced. Member states, through port state control, are ultimately responsible. The extent to which there will be vigorous enforcement is unknown, but we hope from a commercial and insurance perspective that they adopt a practical and pragmatic approach. There will naturally need to be a period of adjustment. **TST**