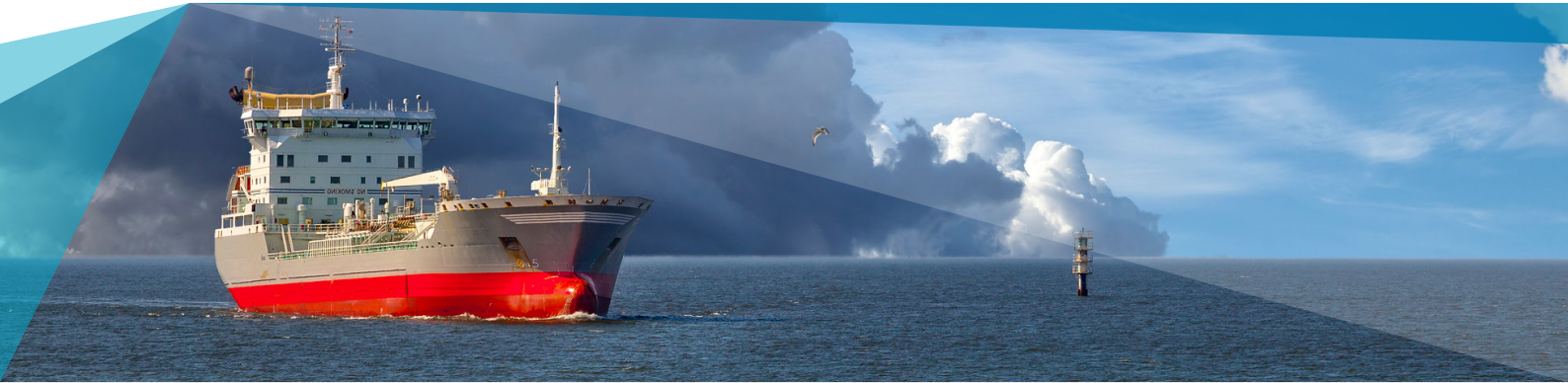


MORTGAGEES ADDITIONAL PERILS (ALL PROTECTION AND INDEMNITY) INSURANCE



(MAP all P&I) is an alternative policy to the mortgagees additional perils (pollution) (MAPP) insurance, but unlike MAPP it is not limited to pollution liabilities only. MAP all P&I responds to the extent of the bank's financial loss following a situation where the collateral vessel has insufficient protection and indemnity insurance to meet the liability claims awarded against it.

WHAT DOES AN MAP ALL P&I POLICY COVER?

An MAP all P&I policy will protect the mortgagee against financial loss incurred by the bank following the arrest of a mortgaged vessel, or seizure of hull claim proceeds, following any protection and indemnity peril where the owner's liability limit proves inadequate and the liability awards against the vessel exceed the applicable limit insured under the owner's P&I insurances. Where such third party claims take precedence over the rights of the mortgagee an MAP all P&I policy will:

- Reimburse the assured bank for the outstanding indebtedness that is subordinate to the claims of others.
- Respond following a liability award arising from an act of war and/or terrorism.
- Respond following a pollution incident thereby removing the need for a separate mortgagees additional perils (pollution) policy.

WHAT TRIGGER POINTS MUST TYPICALLY TAKE PLACE TO CAUSE AN MAP ALL P&I CLAIM?

- The vessel must be found liable by a court.
- The liability, or liabilities, must be covered under the P&I insurance purchased by the owner.
- The sums awarded in compensation against the vessel must exceed the applicable limit of liability under the owner's P&I insurance policy.

WHEN IS AN MAP ALL P&I POLICY BENEFICIAL?

MAP all P&I has most often been purchased by banks when the collateral vessel has been insured on a fixed premium basis for P&I exposures. Any fixed premium insurance will be offered at a greatly reduced limit of liability over those available on a mutual basis from the International Group (IG) clubs. This consequently creates a greater potential for the liability limit to be exhausted.

WHAT HAPPENS IF THE P&I INSURER DECLINES TO RESPOND AT ALL ALLEGING A BREACH OF POLICY CONDITION, WARRANTY, OR SUBJECTIVITY?

In this scenario the financier can look to reimbursement from a corresponding mortgagee's interest insurance policy.

WHAT LIMITS OF MAP ALL P&I PROTECTION SHOULD I BUY?

The insurance should be based on the outstanding loan amount which is often uplifted by between 10-20% to cover additional costs and interest. The uplift is at the discretion of the individual bank and would need to be substantiated in the event of a claim.

DOES MAP ALL P&I PROVIDE SEPARATE LIABILITY PROTECTION FOR THE BANK?

No. MAP all P&I is not intended to provide liability protection for a financier; it is intended to meet liability claims against the vessel which exceed the limit of liability purchased by the owner or operator of the vessel.

COULD A MORTGAGEE BUY ADDITIONAL LIABILITY PROTECTION IF IT HAS CONCERNS?

Yes. By way of example, banks or other financial institutions active in the lease sector are recognised as having a potential liability. In its capacity as owner, a lessor is named in a more prominent manner on a certificate of entry and is therefore more vulnerable to litigation. To protect themselves lessors can therefore buy lessors liability insurance, which provides, inter alia, costs of defence cover. A policy of this type can be

adapted to provide corresponding protection for mortgagees if required. It should be noted that whilst most financiers will have liability protection at group level, these policies will typically contain exclusions that preclude recovery of marine liabilities and therefore a separate policy to cover this exposure may be beneficial.

WHAT TYPES OF VESSELS ARE MOST EXPOSED?

Any vessel without a mutual entry with an IG club is potentially exposed, depending upon the P&I limit purchased by the owner. Other vessels which could produce claims that might exhaust an owner's P&I cover are:

- Cruise ships, particularly those exposed to actions in US courts or other equally litigious jurisdictions.
- Liquid nitrogen gas (LNG) carriers and explosions in ports.
- Vessels that carry toxic/harmful chemicals and therefore have the potential to cause major contamination.
- Specialist vessels, such as heavy lift vessels and flotels, most often active in the offshore energy industry.

An MAP all P&I policy will respond following acts of war and/or terrorism which typically have a war P&I limit of the vessel's value plus an additional US\$500m from the P&I club, which may be reduced to US\$150m for offshore energy vessels/assets. For cruise ships the war P&I limit may be restricted to a sum considerably below the vessel's value.

It is essential that each P&I policy is reviewed on a case by case basis to identify the levels of coverage provided and ensure any MAP all P&I coverage deemed beneficial is adapted to provide the correct protection for the mortgagee. Marsh Maritime Advisory offers this service as part of our consultancy function.

For further information on this matter, please email Marsh Maritime Advisory on: MMA@Marsh.com

Alternatively please contact:

ALEC MORTEN
Tel: +44 (0)20 7357 2218
Mobile: +44 (0)7584 150 736
alec.morten@Marsh.com

NICK RIDDLE
Tel: +44 (0)20 7178 4406
Mobile: +44 (0)7767 495 293
nick.riddle@marsh.com

MARIE RYDENFELT
+44 (0)20 7357 2198
+44 (0)7468 470 912
marie.rydenfelt@marsh.com

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