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**LOOK-OUT**

INSURANCE RELATED ISSUES RESULTING FROM THE COVID-19

## INSURANCE RELATED ISSUES RESULTING FROM THE COVID-19

The Covid-19, more commonly known as Corona Virus, was the predominant topic in the media during the last few weeks. The virus, which initially spread from the city of Wuhan, People's Republic of China, has spread over the Chinese border across Asia, Europe, Australia and the US. Whilst the amount of those infected worldwide has not yet reached the same levels as in China, the numbers within Europe are heavily increasing, most notably in Italy.

It is already apparent that the Chinese economy has weakened due to the virus. The effects initially impacted the car industry, which saw a slump in the local car market of more than 90% in the first few months of the year, compared to previous years. Global markets are following suit due to the influence on supply chains, with companies like Apple warning of supply shortfalls of its products due to the extended halt through lack of manpower in production since Chinese New Year.

Whilst the production in multiple factories has resumed, the considerable delays and the limited number of workers is having a continued drastic impact on the global economy. With the spreading of the disease in Europe and the US a similar closure of factories like in China and a massive slump in the consumer demand need to be expected, which will deepen the effects so far seen in China.

Similarly, merchant shipping has to deal with major consequences as a result of the virus, starting with port closures due to quarantine within cities and diseased crewmembers under quarantine on board.

From an insurance perspective, there are different covers which might be triggered from these scenarios.

### PROLONGED IDLING DUE TO PORT CLOSURES

A port closure due to the virus which led to prolonged waiting times would be mainly an issue for FD&D insurance in respect of legal advices and their underlying costs. Whether any losses could be claimed depends on the circumstances of the particular claim. To succeed with an unsafe port claim for instance could be quite difficult, as it needs to be proven that the encountered perils have been unforeseeable for the Shipowner, even if proper precautions have been taken.

The liability for off-hire periods as a result of port closures due to the virus, are likewise treated unequally and once more depends on the individual case as well as the governing charter party. Nevertheless it could be said that time charter parties (time C/P) might contain the provision that the vessel shall remain on hire during a period of quarantine, such as in the Shelltime.

The situation might differ, if the governing contract is a voyage C/P, as it might be difficult for vessels' command to obtain the free pratique, which is essential to tender the notice of readiness. The free pratique is the licence which the master obtains to enter a port, by having ensured that the vessel and its crew are free from contagious diseases.

If in addition the stipulated port is closed as result of quarantine, there is ordinarily no contractual right within a voyage C/P, which would enable the Shipowner to direct the vessel into an fallback port for avoidance of off-hire periods, unless charterers approval has been obtained.

In contrast, it is usually on the charterer to decide whether the ship should remain at the port in order to await the re-opening, or to provide different instructions if the vessel is fixed on time charter basis. In the last two scenarios and depending on the case, it is likely that the vessel will remain on hire.

In any of the above scenarios, the wording of the governing C/P as well as the respective situation is eminent and therefore it is important to consult the FD&D insurer or obtain other legal advices as soon as possible.

### DEVIATIONS RESULTING FROM CREW DISEASE

It goes without saying that Shipowners are obliged to take care of their crew, providing medical assistance alongside repatriation and deviation. The costs which incur in such events are generally covered under vessels' P&I insurance, subject to the respective deductibles and conditions, which do not include potential off-hire deductions made by charterers.

Under a regular voyage charter contract, the Shipowner is entitled to deviate for the purpose of the safety of the crew. The freight due will remain unchanged; therefore the time lost due to life saving purpose and the off-hire resulting therefrom will need to be shouldered by the Shipowner.



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A similar situation may arise, if such an incident occurs when a vessel is employed on a time charter basis, where charterers are entitled to set the vessel off-hire in case of deviations for medical purposes. Again depending on the circumstances, Shipowners may seek for a commercial agreement with charterers.

### SUPPLEMENTARY COVERAGE DEVIATION AND DELAY INSURANCE

Apart from any commercial solution reached with charterers, a deviation cover would respond for potential off-hire deduction, which are not recoverable from vessels P&I cover. The deviation insurance may apply thereby in cases, where the vessel is set off-hire as result of changes in schedule for medical and or life-saving purpose of the crew and would thereby include potential infections with the SARS-CoV-2 virus.

Such an infection of one of the crewmembers might amongst the repatriation easily lead to the quarantine of the vessel. The list of ports with a standing order to quarantine vessels which either had potential infections or called to ports or countries with a high number of infections is ever increasing. Such cases do not just apply to merchant

shipping. The most prominent example is the cruise vessel „Diamond Princess“ which has been in quarantine off Yokohama, Japan for over 14 days. The question arising from this case is; are there any solutions, which enable Shipowners to cover such a situation?

The answer is: potentially yes. Whilst the developments are fairly recent and neither the consequences nor the extent of the Corona Virus is known so far, the number of insurance related solutions is limited.

Nevertheless, Shipowners are able to limit their exposure, either through the aforementioned deviation cover or through a broader delay insurance. The latter is mainly limited up to a time of 14 days, which would help if a vessel has been quarantined for 14 days, as seen in the case of the Diamond Princess.

Apart from the the aforementioned there are insurance products available, which would cover delays of up to 90 days. However, these products currently do not include events caused by the Corona Virus and would not assist Shipowners. Since the insurers have not yet been able to determine the risk pricing and thus have not yet established new policies.

### SUMMARY

The question which remains is; would it be prudent for Shipowner to obtain such deviation or delay cover?

The answer depends on several factors. Due to the emergence of a new risk, Shipowners need to decide if they are able and willing to shoulder the additional costs of either the insurance cover, or if they take the risk of covering themselves in the event of an aforementioned scenario.

Additionally, one should consider that the situation differs depending on the region in which the vessel trades as well the governing C/P. In the event that the vessel is regularly fixed on voyage charter basis, it is advisable to verify if such coverage would be of assistance or in case already covered, whether it would apply in such a scenarios.

In conclusion, it could be said that the number of available insurance solutions is still limited at the current stage. Nevertheless, should you have any questions or trouble as a result of the Corona Virus, it would be advisable to consult your broker to verify potential options available.



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