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HOW DOES SHIPPING INSURANCE WORK?



With recent maritime conflict in the Middle East, risks to shipping and shipping insurance have been in the headlines. But how does shipping insurance work?

THERE ARE THREE BASIC CATEGORIES OF INSURANCE FOR SHIP OWNERS

- **The vessel itself**
- **Third party liability**
- **Legal defence and off-hire costs**

War Risk insurance is a special case that can cover the vessel and third party liability in extreme events.

VESSEL INSURANCE: HULL AND MACHINERY (H&M) INSURANCE

Hull and machinery insurance covers physical damage to the vessel itself, such as collisions, groundings, fires.



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THIRD PARTY LIABILITY: PROTECTION AND INDEMNITY (P&I) CLUBS

Third party liability insurance can cover damage or injury to others, including crew, cargo, another ship that is damaged, port infrastructure, or environmental costs.

This party liability is often handled by mutual associations of shipowners called P&I Clubs. They pool funds to cover costs and do not seek to make a profit.

LEGAL DEFENCE AND LOSS-OF-HIRE INSURANCE

Freight, demurrage, and defence (FD&D) insurance can cover legal costs arising from contract disputes.

Loss-of-hire insurance can compensate the shipowner for the daily revenue lost while a vessel is out of service following an incident.

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WAR RISKS

Both H&M and P&I policies contain standard war exclusion clauses. Shipowners who want this coverage must purchase a separate war risks policy, typically from specialist war risks underwriters or specialist P&I clubs.





WHAT INSURANCE IS INVOLVED WITH RESCUE OF MIGRANTS AND REFUGEES?

P&I policies may cover some costs associated with rescue, such as care for rescued people, and fuel and port fees.

Deviation to perform a rescue may result in disputes with the charterer, which can trigger FD&D insurance for legal costs.

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Building bridges to save lives at sea.

Find more information and resources at

www.fhas.ch