



INTERNATIONAL
OIL POLLUTION
COMPENSATION
FUND 1992

FOURTH INTERSESSIONAL
WORKING GROUP
Agenda item 2

92FUND/WGR.4/7/3
22 May 2007
Original: FRENCH

NON-TECHNICAL MEASURES TO PROMOTE QUALITY SHIPPING FOR CARRIAGE OF OIL BY SEA

THE ROLE OF HULL INSURANCE IN THE PROMOTION OF QUALITY SHIPPING FOR CARRIAGE OF OIL BY
SEA

Document prepared by France

Summary:

This document seeks to promote discussion about possible contributions by providers of hull insurance in the promotion of quality shipping for the transportation of oil by sea. On the basis of the OECD report concerning the insuring of ships' hulls, it should be noted that hull insurance is a means for improving the quality of ships. A study should be carried out to establish any correlation between an absence of hull insurance, the quality of an insurer and the type of insurance cover and the number of incidents recorded that bring into question the liability of third parties.

Action to be taken:

Invite the Secretariat to carry out the required studies.

1 Introduction

- 1.1 At its 10th extraordinary session, held in February 2006, the Assembly decided to establish a Working Group for the specific purpose of drafting proposals for non-technical measures and guidelines for Contracting States and the marine transportation sector in order to promote quality shipping by ensuring that effective checks and procedures are in place to ensure that insured and certified ships are suitable for the carriage of oil by sea as required by the Civil Liability and Fund Conventions (point (a) of the mandate).
- 1.2 On that basis, the liability insurance sector was the focus of the Working Group's study. At the same time, the Working Group's mandate encourages members to consider 'related issues' (point (d) of the mandate). One of the related issues that could be helpful in fulfilling the Working Group's task is that of hull insurance for vessels transporting oil. The issue of hull insurance is the subject of several discussions in the OECD report of June 2004 concerning the contribution of the insurance sector to the elimination of substandard shipping.
- 1.3 During the second meeting of the Working Group, in March 2007, France announced its intention to bring that subject to the Working Group's attention.

2 **The issue**

- 2.1 The OECD report defines a 'substandard' vessel as that which 'through its physical condition, its operation or the activities of its crew fails to meet basic standards of seaworthiness and thereby poses a threat to life and/or the environment.'
- 2.2 As that report notes, a provider of hull insurance is more interested in the state of the hull and machinery than an insurer providing liability insurance, because a provider of hull insurance is interested in everything that could malfunction and not just that which could bring into question the liability of a third party. The report also noted that providers of hull insurance are increasingly taking into account issues of management and operation of vessels. Therefore, hull insurance seems to be more closely linked to considerations concerning the quality of vessels than liability insurance. Indeed, 'substandard' vessels (whether the use of that term is due to the quality of the vessel or the ship's operator) will earlier and more frequently be faced with incidents that involve their hull insurance than with incidents that involve their liability insurance.
- 2.3 The following initial conclusions can be drawn: providers of hull insurance for vessels transporting oil can play a role in the identification and elimination of substandard vessels and, more generally, in the promotion of quality hull insurance, in other words, insurance that would be very sensitive to the conditions of vessels (or fleets of vessels) and also to conditions of operation and management, capable of contributing to the promotion of the quality transportation of oil.
- 2.4 Along that line of thinking, several difficulties arise, namely the absence of an obligation to insure vessels' hulls, the varying quality or rigorousness of providers of hull insurance and the diversity of types of contracts, which raise a whole series of questions:
- How many vessels used to transport oil navigate without hull insurance and is there a correlation between the absence of insurance and the number of incidents recorded involving those vessels?
 - Are there mechanisms for sharing information about the condition of vessels among providers of hull insurance and to which extent is the quality of checks and surveys carried out verified?
 - Is there a correlation between certain types of hull insurance policies, for example contracts with high deductibles, and a greater number of incidents?
- 2.5 Initially, it would be a question of identifying possible correlations between providers of hull insurance for tankers and incidents recorded that might involve the liability of their owners. Then, if certain links are found, it would be appropriate to study which measures concerning hull insurance would be capable of promoting quality shipping of oil (mandatory insurance, an obligation on the insurer or the owner etc., to provide information)

3 **Measures that the Working Group is invited to take**

To invite the Secretariat to carry out the required studies, in cooperation with the parties concerned, in order to answer the questions raised in this document.
