

## **War and Terrorism P&I Cover: An absurd Act**

The recently passed USA Terrorism Risk Insurance Act of 2002 will leave its mark on P&I insurance, not for its contribution to terrorist cover but as an absurd example of poorly drafted legislation. The Act strikes down, for USA flagged vessels, the terrorism exclusion clauses or limitation of cover clauses as promulgated by P&I insurers over the past year. The "re-instated" cover is in effect reinsured to 90 per cent by the USA government. Since this agreement is not poolable and there is no re-imbursalment from the International Group's Excess of Loss RI, the remaining 10 per cent co-insurance generates a potential \$400m exposure for each Club, subject to whatever deductible is applied. The Clubs can get around this only with the express agreement of the insured shipowner. They then charge a separate premium for the full terrorist cover which is pitched prohibitively high. As the shipowner cannot pay such a premium (something on the order of \$12-\$27m per vessel!), the original reduced Club limit of \$200m in excess of vessel's value will again be in effect. This seems like a rather convoluted procedure to come full circle.