

No. 4 - Excess War Risks P&I Cover 2003/2004

April 2003

Dear Sirs

EXCESS WAR RISKS P&I COVER 2003/2004 (CHEMICAL, BIO-CHEMICAL BUY-BACK PROTECTION)

We refer to our Notices to Members No. 12 2002/2003 dated February 2003 and No. 2 2003/2004 dated March 2003.

In those Notices we referred to the **Chemical, Bio-Chemical, Electromagnetic Weapons and Computer virus Exclusion Clause** (the "**Chemical etc., Exclusion Clause**") which has been applied to the Club's \$400 million Excess War Risks P&I Cover for 2003 and, we understand, to all underlying War Risks P&I Policies which Members have in place.

The addition of this Exclusion creates a significant restriction on all Members' War Risks P&I Policies and may expose them to substantial uninsured losses.

As a consequence, and as advised in the final paragraph of Notice to Members No. 2 2003/04 dated March 2003, the Managers have now placed a limited Buy-Back Cover for losses which would otherwise be excluded by the operation of the Exclusion in relation to

both the Members' underlying War Risks P&I Policy up to an entered vessel's proper value,

and the Club's \$400 million Excess War Risks P&I Cover.

The protection, however, is itself limited and will only respond for losses occurring during the 2003 Policy Year up to \$60 million in aggregate for all claims involving West of England Members. The protection will not therefore respond to any further claims once this amount has been exhausted.

Members should also be aware of an additional provision in the Buy-Back Policy. The effect of this is that because certain Buy-Back Underwriters also provide capacity for the Club's \$400 million Excess War Risk P&I Cover, they will not pay more than their share of \$400 million in the aggregate for both the Excess and Buy-Back Policies together. The circumstances in which this provision might in practice operate will be rare and would only arise, for example, where a claim exceeds \$400 million and where the Club's Excess War Risk P&I Underwriters take a different view of the meaning of the Exclusion from the Underwriters who provide the Members' underlying War Risk P&I Policy. The former may decide that a claim is not excluded by the Exclusion and will therefore respond up to \$400 million, but the latter may decide that it is excluded, with the result that the Club's Buy-Back Underwriters will then also have to respond in relation to the underlying policy for up to \$60 million. In such a case the maximum amount recoverable under the Club's Excess War Risks P&I Policy reduces to \$340 million.

A deductible of \$250,000, or the deductible applicable to the Member's underlying War Risks P&I Policy whichever is the greater, shall apply to each and every claim for all entered vessels except for vessels engaged solely in the carriage of passengers. Such vessels will be subject to a deductible of \$750,000 each claim, or the deductible applicable to the Members' underlying War Risks P&I Policy whichever is the greater.

The Club also has the right to issue a seven day Notice of Cancellation to introduce, for example, an excluded area, but the Club will reinstate Cover prior to the expiry of such a Notice subject to agreement with Members as to special rates and terms which may be applied for such a reinstatement. There is also an Automatic Termination provision in the event of war breaking out between the United Kingdom, the United States, France, the Russian Federation or China.

Since the Cover is limited in the aggregate the Managers will process any claims which may arise on a “first come first served” basis by reference to the date on which a Member incurs a liability to pay a claim made against him. It is, therefore, possible that a few large claims could exhaust the entire limit of recovery leaving subsequent losses uninsured. Despite this limitation, the Buy-Back insurance does at least afford West of England Members some measure of protection against what are perceived to be real risks for which Cover would not otherwise be available. The Board at its next meeting in May will, however, consider whether or not it shall set any guidelines, conditions or limitations in the way in which the overall aggregate limit might be applied to whatever claim or claims are incurred during the policy year so that, for example, the whole aggregate \$60 million limit is not automatically exhausted by a single claim.

All Members will have the benefit of the Buy-Back Cover automatically; no additional premium will be charged since the cost of the Cover will be absorbed as a general Club expense for 2003.

Members who have any questions about the way in which this Cover will operate should contact the Managers in the usual way.

Yours faithfully

**The West of England Ship Owners
Insurance Services Limited**
(As Managers)

P E Spendlove
Managing Director