Iran trading – fixed premium P&I cover update

Dear Sirs,

Members are referred to our Circulars 1/2016, 2/2016, 3/2016, 4/2016 and 2/2018 concerning Iran sanctions. This Circular is intended to inform Members that the fall-back cover, placed to deal with the potential reinsurance recovery shortfall risk under Gard’s Fixed Premium P&I Excess Loss reinsurance programme due to US reinsurers participation, has not been renewed for the 2019 policy year.

By way of background, the Rules of all of IG clubs:

(a) contain provisions, under which the Member has no P&I cover in respect of activities or liabilities which breach applicable sanctions, or otherwise expose the club to sanctions or to the risk of sanctions,¹ and

(b) prohibit or limit (reduce) a Member’s right of recovery from its club if there is a shortfall in the club’s reinsurance, because of the application of sanctions (which includes any shortfall under the Excess Loss programs or any other reinsurance arrangement).²

For the 2018 policy year, Gard’s Fixed Premium P&I Excess Loss reinsurance programme consisted of two contracts providing limits as follows; Layer 1 USD 230 million excess USD 20 million and Layer 2 USD 500 million excess USD 250 million and in the event of losses both contracts had unlimited reinstatement of cover. The US-domiciled reinsurers had, during this policy year, shares amounting to 37.5% under Layer 1 and, for reasons outlined above, there was a very high probability that a claim with Iran nexus would prohibit or limit a Member’s right of recovery from the club because of the US primary sanctions.

In an effort to find a solution to facilitate a resumption of lawful trading with Iran, Gard placed a “fall-back” reinsurance cover for its fixed premium P&I business for the 2018 policy year. The cover was designed to respond to reinsurance recovery shortfalls resulting from the inability of US-domiciled reinsurers on the Fixed Premium Excess Loss reinsurance programme to make payments due application of US primary sanctions.

Since there are no longer US reinsurers participating in the fixed-premium P&I reinsurance program, the need for the arrangement has ceased and accordingly the fall-back cover has not been renewed for the 2019 policy year.

Generally, whilst the potential impact of reinsurance shortfall has been reduced vis a vis Iran trade under the fixed premium P&I program, it may still be an issue partly due to continued participation of US owned and controlled non-US reinsurers in the Fixed Premium Excess Loss reinsurance programme. Further the risks involved in respect of Iran trade is very high, in particular after the reimposition of US secondary Iran sanctions. For additional information on Iran sanctions risk, reference is made to our Circulars 6/2018 and 14/2018.

¹ Relevant Gard Rules are: Rules 24.3, 25.4 and 77.2 in the Rules for Ships; Rules 16.3, 17.4 and 51.2 in the Rules for Mobile Offshore Units; and sections 13.2, 14.4 and 26.3 in Additional Covers – Terms and Conditions 2019.

² Relevant Gard Rules are: Rule 77.3 in the Rules for Ships; Rule 51.3 in the Rules for Mobile Offshore Units; and section 26.4 in Additional Covers – Terms and Conditions 2019.

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Please also note that pursuant to standard terms of cover the Member’s right of recovery in respect of sanctions related matters will be reduced accordingly if the trade is in violation of applicable sanctions regimes and/or the Club or any of its reinsurers is exposed to sanctions by covering the incident.

Any questions with regard to the above may be addressed to Lars Lislegard-Bækken, Tore Svinøy or Ingvild Høgenes Nilsen, Gard, Arendal.

Yours faithfully,
GARD AS

Rolf Thore Roppestad
Chief Executive Officer

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3 Rules 24.3, 25.4 and 77.2, 77.3 in the Rules for Ships; Rules 16.3, 17.4 and 51.2, 51.3 in the Rules for Mobile Offshore Units; and sections 13.2, 14.4 and 26.3, 26.4 in Additional Covers – Terms and Conditions 2019