



Mobile offshore units – P&I insurance
This cover pioneered the design of a sophisticated and adaptable cover for mobile offshore units and has maintained its position as a market leading facility with a broad international base.

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A historical perspective

Gard's involvement in the insurance of Mobile Offshore Units engaged in the exploration, development and production of oil and gas reserves began as an inevitable progression from the more traditional areas of shipowners' liability insurance. The need to develop a specialist program to cater for the requirements of the offshore energy industry was perceived in the early 1970's, at a time when Scandinavian shipowners started taking delivery of drilling vessels.

Traditional protection and indemnity insurance for ships was then – as now – not available for vessels carrying out drilling, production and accommodation services ("Mobile Offshore Units") through Gard or other P&I clubs. The risks involved are considered to be so special as not to qualify for cover under the standard reinsurance (or "pooling") arrangements of the International Group of P&I Associations, of which Gard is a member.

Accordingly, a separate insurance program for "Mobile Offshore Units" was required. In 1973 Gard established a separate cover based on specialized conditions for mobile offshore units: such as drilling vessels, accommodation and construction barges and production units. This cover pioneered the design of a sophisticated and adaptable cover for mobile offshore units, and has maintained its position as a market leading facility with a broad international base. The insurance is available to owners, operators, managers and charterers of Mobile Offshore Units, as well as to other parties who have an insurable interest in the operation of such unit.

The P&I insurance is a named risk insurance, i.e., the cover is limited to those liabilities, losses, costs, and expenses, which have been expressly mentioned in the Rules. The maximum standard limit of cover available is currently

USD 750 million any one vessel any one event.

What types of Mobile Offshore Units are covered?

Initially, the insurance program was dedicated to "drilling vessels". In this context, drilling vessel means a moveable, floating structure for drilling for deposits of petroleum (oil or gas) under the sea-bed. The insurance program was soon extended to cater for the insurance requirements of accommodation vessels and other vessels providing major maintenance and support functions, such as construction and service vessels periodically moored or positioned on the offshore site during the development, exploration or production phase.

The last category of vessels to join Gard's insurance program, in the mid 1980's was vessels and floating installations used for production and/or storage of hydrocarbons. A typical production vessel is a

Standard limit of cover of USD 750 million



moveable floating production and storage unit, and these may be either purpose-built, ship-shaped structures, converted tankers (FPSO) or semi-submersible production units or jack-ups (FPU).

The scope of cover

A Member is covered in respect of liability or losses incurred by him and which arise in direct connection with the operation of an entered vessel, although the coverage is extended to include activities at one or more supply bases, provided such activities are in direct connection with the operation of the vessel or transport between the vessel and a supply base, a port or airport in the vicinity of the base. For the purpose of P&I cover, it may be agreed that the entered vessel shall include such as moorings, risers, flow-lines, buoys and other equipment connected to the vessel.

The Member may also subscribe to a Comprehensive General Liability Cover (CGL), which is tailor-made by Gard and offered as a bolt-on extension to the P&I cover. The CGL extension extends the scope of cover beyond the operation of the vessel including on-shore activities associated with operations of an entered vessel.

The extent of cover

The cover offered by the Association is set out in Chapter 6 of the Rules for

Mobile Offshore Units. The basic insurance offered by the Association is intended to provide a comprehensive cover. The Member is afforded protection against the majority of the liability risks to which he may be exposed in the course of his activities. The main areas of protection provided by the Association are outlined, as follows:

- (1) **Liabilities in respect of crew.** The Association provides cover for all of the most common types of liability which may be incurred in respect of crew, namely:
 - a) Liability to pay medical, maintenance, funeral and other expenses incurred in relation to the injury, illness or death of a crew member.
 - b) Liability to repatriate and compensate a crew member for the loss of employment caused by a casualty to the vessel.
 - c) Liability to pay compensation or damages in relation to the injury, illness or death of a crew member.
 - d) Liability for wages payable to an injured or sick crew member, or on death, to the crew member's estate.
 - e) Liability for damage to or loss of a crew member's personal effects.

(2) **Liability for persons other than crew members.** The cover for personal injury or death of other personnel will respond to cover the Member's liability to

employees other than crew, as well as his liability to personnel of other contractors and subcontractors, employees of the operator or client and other third parties. The scope of cover extends to contractual liabilities assumed by the Member in respect of such personnel.

(3) **Collision with other vessels and damage to fixed and floating objects.** The P&I cover for Mobile Offshore Units will be dovetailed to match the applicable Hull & Machinery conditions. The P&I insurance can offer full primary collision cover or serve as a complementary and excess cover in relation to the hull insurances.

(4) **Pollution liability.** The Association will cover liabilities arising in consequence of oil or any other pollution or the threat thereof. However, the insurance does not cover pollution from the well or reservoir being drilled, worked over or serviced by the vessel, or measures taken to avert or minimise such liabilities.

(5) **Loss of or damage to property.** Whenever there is liability for damage to property, the insurance will cover not only liability for loss of value, but also liability for the consequences of the damage (consequential loss) - typically loss of time or profit. Even in the case that the Member has not received an indemnity in respect of the operator's consequential loss,

The Member is afforded protection against the majority of the liability risks to which he may be exposed in the course of his activities.



such liability can be covered on terms to be agreed. In practice, the types of liability most frequently covered would be liability for property damage caused by the use of the vessel's crane or mooring equipment, including the use of anchors at the offshore site.

(6) Liability for obstruction and wreck removal. The P&I insurance will cover the Members' liability, subsequent to a casualty and including liability assumed under contract, for the removal of wreck and debris and liability to third parties for loss caused where the vessel or parts thereof, has caused an obstruction.

Parameters for setting the premium

Premium rating for P&I of Mobile Offshore Units will depend on the Member's risk exposure according to standard underwriting criteria. Risk assessment and evaluation are based on several factors, including the category of vessel and type of operations performed by the

vessel, the Member's contractual obligations and the extent of cover required. The relevant claims record will also be assessed. The membership benefits from a continuity scheme rewarding loyalty with the Association. The premium is fixed and is, therefore, not subject to supplementary calls.

Key features of Mobile Offshore Unit P&I cover with Gard

Gard's position as a market leader of this type of specialized insurance has many advantages for the membership – such as:

High limits of cover are available at economical cost thanks to economies of scale. Longstanding relationship with reinsurance markets secures stability of cover and costs. For 2005, the upper limit available is maximum USD 750 million per vessel any one event.

The Association's financial position and long-term dedication to P&I cover for

Mobile Offshore Units provide Members with both high security for claims and stability of cover and costs.

Members benefit from the experience and expertise of Gard's staff dedicated to service the offshore industry. Thanks to Gard's significant volume of this specialized insurance and the Association's long history with P&I insurance of Mobile Offshore Units, a highly experienced staff of claims handlers and underwriters are available to assist and share their experience with Members. In particular most Members find the Association's assistance with review of and advice on offshore contracts very useful.

The current insurance program does not only provide insurance against P&I liabilities. The insurance package available to the Membership has also been developed to include the following additional insurances:

*Cover onboard
presence and use
of radioactive
equipment*



(1) P&I War Risk (including terrorism) Insurance, which is included in the P&I cover and subject to a maximum limit of USD 150 million per vessel any one event.

(2) Comprehensive General Liability Insurance, which extends to cover the Members' activities associated with operation of the entered vessel, including use of ancillary craft and chartered support vessels and including activities undertaken absent from the vessel, whether offshore or onshore. This additional insurance is subject to a standard limit of cover of USD 10 million, except for Extra Expenses Liability Risks such as seepage and pollution from the well being drilled, worked over or serviced by the vessel, where a limit of USD 5 million applies. On request a higher limit of USD 25 million with sub limit of USD 10 million for pollution from well can be arranged.

(3) Freight Demurrage & Defence (FDD), which covers the Member against legal costs incurred in defending a dispute arising from charter parties and contracts, etc. The standard cover available in respect of FDD is USD 1 million any one event.

Nuclear Perils

Notwithstanding the standard market Radioactive Contamination Exclusion Clause, the P&I cover for Mobile Offshore Units has been extended to cover liability arising out of the use and presence on board of radioactive equipment and substances commonly used in the offshore industry, such as low radiation radioactive isotopes. The cover is conditional upon that such equipment and substances are carried, kept and used in accordance with applicable rules and regulations covering the carriage, custody and use of such equipment and substances. Such liability is covered pursuant to Rule 42, and cover is subject to a limit of USD 25 million per event.

It is with the firm dedication to maintain and continue to build upon the existing insurance program that the Association now enters the 21st Century. The priorities for the coming years will be to maintain a significant capacity, to provide stability of premium and coverage and to ensure long-term security for the Membership. Gard will also continue to place significant emphasis on the advisory role offered by the Association in respect of contracts tendered for review by the membership. It is the Association's overall policy to maintain its current position whereby Members can be offered a specialized comprehensive product and professional dedicated service now and in the future.

For more information on the Mobile Offshore Units – P&I Cover, please contact your broker or Gard's P&I Underwriting Department.