

## Iran trading – fixed premium P&I cover update

Dear Sirs,

### Introduction

Members are referred to our Circulars [1/2016](#), [2/2016](#), [3/2016](#) and [4/2016](#) concerning Iran sanctions. This Circular is intended to update Members on the current solution to the reinsurance recovery shortfall risk under *Gard's Fixed Premium P&I Excess Loss reinsurance programme* applicable for the policy year running to 20 February 2019.

### 1. Insurance cover solutions

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,<sup>1</sup> 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).<sup>2</sup>

Gard's Fixed Premium P&I Excess Loss reinsurance programme consists of two contracts providing limits;

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 have unlimited reinstatement of cover.

US-domiciled reinsurers have shares amounting to 37.5% under Layer 1 and, for reasons outlined above, would prohibit or limit (reduce) a Member's right of recovery from the club because of the application of sanctions.

In an effort to find a solution to facilitate a resumption of lawful trading with Iran, Gard has investigated the possibility of placing a "fall-back" reinsurance cover for its fixed premium P&I business. This cover is 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 to the continuing application of US primary sanctions.

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<sup>1</sup> Relevant Gard Rules are: Rules 24.3, 25.4 and 77.2 in the Rules for Ships; Rules 15.3, 16.4 and 30.4 in the Rules for Mobile Offshore Units; and sections 13.2, 14.4 and 26.3 in Additional Covers –Terms and Conditions 2018.

<sup>2</sup>Relevant Gard Rules are: Rule 77.3 in the Rules for Ships; Rule 30.5 in the Rules for Mobile Offshore Units; and section 26.4 in Additional Covers –Terms and Conditions 2018.

## 2. “Fall-back” cover

The cover is an annual cover in respect of P&I liabilities and provides indemnity in respect of claims which would otherwise have been recoverable under Gard’s Fixed Premium Excess Loss reinsurance programme but for an inability to pay by US domiciled reinsurers by virtue of continuing US primary sanctions.

The cover limit is for an amount of EUR 81 million in respect of any one event, and in the annual aggregate, with one full reinstatement of cover. This limit would at current exchange rates accommodate a single loss scenario based on a combined single event liability of USD 250 million within Gard’s Fixed Premium Excess Loss reinsurance programme. In the absence of exhaustion through a single loss scenario, the cover would be available to respond to a series of smaller loss events up to the EUR 81 million aggregate limit.

However, because of the cover limit, and the single reinstatement terms (in contrast to the Excess Loss programme which has unlimited reinstatements), there is a risk that the cover could be exhausted by several very significant Iran-related liability claims, or an aggregation of smaller claims up to the overall current policy limit of EUR 162 million (2 x EUR 81 million).

Consequently, the cover is not a “like for like” replacement of the cover currently available under Gard’s Excess Loss programme. Thus, if and to the extent the special Gard “fall-back” cover for fixed premium P&I business should become exhausted, the Member’s right of recovery will be reduced accordingly pursuant to standard terms of cover.<sup>3</sup>

The “fall-back” cover itself contains a sanctions clause, which could be engaged in the event of future sanctions or prohibitions constraining the subscribing reinsurers.

Any questions with regard to the above may be addressed to [Lars Lislegard-Bækken](#) or [Tore Svinøy](#), Gard, Arendal.

Yours faithfully,  
**GARD AS**



Rolf Thore Roppestad  
Chief Executive Officer

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<sup>3</sup> Rule 77.3 in the Rules for Ships; Rule 30.5 in the Rules for mobile offshore units; and section 26.4 in Additional Covers – Terms and Conditions 2018.