

**CIRCULATED TO ALL FD&D MEMBERS, BROKERS AND DIRECTORS
ATTENTION INSURANCE DEPARTMENT**

**28 AUGUST 2002
SHP/KS**

MARITIME LIEN INSURANCE FOR CHARTERERS' DEBTS

The purpose of this Circular is to draw Members' attention to a new insurance policy which the Managers of the Association have designed for Members and arranged to be available through the Lloyd's Insurance Market. The risks covered by this new policy are the risks of claims being made against insured vessels as well as liabilities being incurred by Members in respect of insured vessels arising as a result of the insolvency of a charterer.

The Policy

The Policy is a Lloyd's Insurance Open Policy to which declarations can be made, but only in respect of vessels entered in the Association's FD&D Class. At present, third party claims made against vessels entered in the FD&D Class fall within the scope of the Association's FD&D cover such that Members are ordinarily afforded support from the FD&D Class to defend such claims and attempt to make recoveries in those cases where this is possible. If, however, Members are deemed to have acted recklessly when fixing to the particular charterers whose insolvency has given rise to the claims, then the support of the FD&D Class may not be granted. Even if FD&D Class support is granted, however, this will only provide insurance cover for the legal costs and not for the actual claims being made against the vessel. As far as the Managers of the Association are aware, insurance for such claims has not previously been available and this policy has been designed to provide cover for such claims as well as the liabilities which Members may have to incur in order to continue and complete a voyage already commenced prior to the insolvency of a charterer.

Scope of cover

The scope of this cover is to indemnify Members for financial losses incurred by them by way of "third party claims" arising directly from the insolvency of a charterer of the vessel. Third party claims are defined as:

1. Any claims being asserted against a declared vessel including, but not limited to statutory rights of action in rem, maritime liens and any other maritime claim which it is alleged by the claimant gives a right against a vessel; and
2. Any liability to pay the cost of bunkers, port charges, stevedoring costs and any other costs necessary for the completion of a voyage which would properly be the responsibility of the vessel's charterer.

It will be seen from the above that the policy is designed to cover not only Members' liability to third parties in respect of charterers' unpaid debts, but also any liability which Members may have to incur in order to continue and complete a voyage already commenced prior to the insolvency of a charterer.

Whilst many such liabilities will arise under time charterparties, it is equally possible that such liabilities may be incurred under voyage charterparties, particularly those on FIOS terms (or similar).

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NB: The policy does not cover any loss of earnings whether it be hire, freight, deadfreight, demurrage or indeed running expenses for the vessel etc.

The Period of the Policy

The period of the policy will ordinarily run from the 20 February for 12 months unless a vessel is sold. Members purchasing a vessel during a policy year will naturally be entitled to buy this maritime lien insurance for charterers' debts as from the date of delivery of the vessel or, in the alternative, from the following 20 February. Exceptionally, as this policy is being launched during the course of the 2002 policy year, it has been decided to offer this insurance to Members for the remainder of the current policy year as well as the 2003 policy year, although the latter period of cover will naturally be subject to the vessels remaining entered in the Association's FD&D Class for the 2003 policy year.

Time charterer members wishing to purchase this policy to protect them from liabilities arising as a result of the insolvency of a sub-charterer are free to do so, providing the policy is purchased either from the date of delivery of the vessel under the head time charter or from 20 February until redelivery under the head charter. The policy is, however, subject to a minimum premium (as to which see below).

The Policy Terms

The premium per vessel declared to the policy will be US\$5,000 pro rata per annum subject to a minimum premium of US\$1,250. The limit of cover will be US\$1.0 million per claim and in the aggregate per vessel, subject to a deductible of US\$10,000 per insolvency per vessel.

The terms of the policy are non negotiable and Members will not be able to obtain a reduction in premium by opting to accept a lower limit of cover or a higher deductible. In return however, the Managers have secured a bulk rebate whereby Members declaring in excess of 10 vessels to the policy will obtain a rebate on the premium of 10% for all the vessels declared and Members declaring in excess of 20 vessels will obtain a rebate of 20% for all vessels declared. The rebate will be paid to those Members qualifying at the end of each policy year.

Members should note that a commission will be payable to the Association to cover administration expenses.

SUMMARY

The Managers of the Association hope that this maritime lien insurance for charterers' debts will provide Members with a useful additional cover to protect them against unforeseen financial losses. The policy wording is available on request from the FD&D Department of the Association together with an explanatory set of "Frequently Asked Questions", or alternatively may be viewed and downloaded from the Association's website at www.nepia.com. Any enquiries in relation to this policy should be directed to a member of the Association's FD&D Management team.

STEPHEN PURVIS

DIRECTOR - North Insurance Management Limited

As Managers on behalf of the North of England P&I Association Limited