

Charterers' Default Insurance

Shipping markets are traditionally highly volatile and the current shipping market crisis has clearly underlined the need to protect against loss due to charterers' default.

Many Charterers' are straggling due to extremely high market fluctuation and in the recent past we have even seen former market leaders falling. Once a charterer fails to follow his obligations the owner has the right to terminate the Charter party and look out for alternative employment for the vessel. However, due to the current and ongoing weakness of the market(s) it is often impossible to archive the same or even higher charter income when re-fixing the vessel.

The Charterers' Default insurance provides an indemnity against loss of hire resulting from a default by the vessel's charterer; it protects the owner against unpaid invoices, the cost of laying up the vessel and most importantly any shortfall in hire realised at re-fixing.

At common terms the insurer initially reimburses up to eighty percent of any shortfall due to charterers default. Once the vessel is laid up awaiting new employment, the insurer continues to reimburse the insured for eighty percent of an amount equal to the loss of hire less any expenses the shipowner is saving by not operating the vessel e.g. bunkers, reduced crew etc.

Once refixed, the insurer will typically indemnify one hundred percent of any shortfall in the charter hire for the balance of the indemnification period.

Many shipowners had to realise significant losses due to charterers' default to follow pay their bills. Often this has resulted in massive existential threats for the owners themselves.

However, not only owners are vulnerable by the threats of charterers' default. Basically any party with financial interest in the vessel and its credit can purchase Charterers' Default insurance cover. E.g.. Mortgage Banks, Investment Parties Ship Managers etc.

Once the benefit of charter income has (partly) fallen away, the insurance kicks in and reimburse the insured according to the agreed terms.

By insuring the risk due to charterers' default -

- **Ship owners can secure a large fraction of prospected income and henceforth protect themselves against market fluctuation and unemployment of vessels;**
- **The market risk has been transferred to a rated insurer and any upside in charter income is still there for the owner's benefit;**
- **Lenders and lessors can secure their investment against losses due to circumstances beyond their control;**
- **The secured income protected by a Charterers' Default insurance may attract private investors and can lead to a competitive advantage.**



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