

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 re-imposition 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.

Please also note that pursuant to standard terms of cover³ 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.⁴

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

Yours faithfully,
GARD AS



Rolf Thore Roppestad
Chief Executive Officer

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