CMEC(RIS) - Maritime Knowledge Lecture Series on 13th August 2025

Role of P & I (Protection and Indemnity) Clubs in Shipping

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Background

The UNCTAD, 2023 report, projected a modest 2 percent increase in maritime trade between 2024 and 2028, but also highlighted that global trade is predicted to increase to USD100 trillion from the current USD 32 trillion by the year 2050. The Shipping sector is seen as a major midstream component for international trade.

India pays almost 100 billion USD currently as freight charges annually and this figure is growing every year with India’s GDP. However, India’s maritime insurance landscape remains underdeveloped despite the sector’s vital role in the international trade.

The Maritime Amrit Kaal Vision 2047 is a comprehensive roadmap for the Indian maritime sector's transformation over the next 25 years, aiming to establish India as a global maritime leader. It builds upon the Maritime India Vision 2030 and focuses on enhancing port capacity, promoting coastal and inland waterways, and developing a sustainable maritime ecosystem.

P&I club cover for legal liability has become crucial to the survival and growth of the maritime industry for ocean going ships across the globe and is now becoming increasingly relevant in any nations, coastal and national water ways.

They provide essential services to shipowners and operators supporting the smooth functioning their operations by covering matters relating to crew safety, cargo carriage and safety, risk management, claims mitigation and publishing loss prevention initiatives where members are provided guidance and resources to help minimize risk and promote safe operations and comply with maritime regulations. This is in addition to the traditional claims handling expertise that might be expected from an insurance service provider.

Accordingly, on 13th of August 2025, CMEC(RIS) organised a lecture under the Maritime Knowledge Lecture Series, on the topic, "Role of P& I (Protection and Indemnity) Clubs in Shipping"**.** The talk outlined the under-mentioned areas.

Introduction to P&I Cover

Protection and Indemnity (P&I) cover is a special form of maritime insurance that gives coverage for shipowners against third-party liabilities. Often, this insurance is managed through "clubs" also known as "P&I clubs", which is owned and managed by their membership of operators and owners. These clubs play an important role in maintaining the financial stability and operational functionality of maritime operations. This type of insurance is critical for the maritime industry, as it covers a broad range of risks that are not usually included in standard hull and machinery policies.

Historical Perspective of Marine Insurance

Early marine insurance roots dates to ancient Babylonians, Phoenicians, and possibly Indians. In Rome 215 B.C., concept of 'bottomry' came into being, where roman government accepted "all risk of loss" for military supplies on ships. With the onset of medieval period, marine insurance developed in the towns of Lombardy and Hanseatic by merchants around 13th century, with theoldest known marine insurance policy dated to 23rd October 1347 issued in Genoa.

By the 17th century, London market had become the nucleus of marine insurance through Lloyd's Coffee House, with the first English statute passed in 1601. As maritime trade grew, courts gradually acknowledgedthe third-party liabilities, for example,*De Vaux v Salvador*case (1836), which expanded insurance cover to collisionsand *Fatal Accident Act in 1846* provided dependents right for wrongful death claims.

In the mid-19th century, emergence of mutual protection societies led by shipowners resulted in first known P&I club named Britannia Steam Ship Insurance Association Limited founded in 1855. Original rules covering liability for injury claims, death, and collision liability. Their domain was later shaped by U.S. Harter Act of 1893 and the adoption of Hague Rules of 1924. The P&I Clubs also began to offer Defense cover to provide advisory and claims handling service for P&I and many non-P&I matters.With the onset of 20th century, P&I clubs gained international recognition, pooling resources over Asia, America and Europe.

Relevance to International Law

Marine insurance is divided into two main categories namely cargo and ship. P&I insurance covers liabilities from ocean – going ship operations, which is closely connected to international maritime law. Primarily, the catastrophic sinking of Titanic in 1912 led directly to the development of international convention for the safety of life at sea (SOLAS). Subsequently, the Torrey Canyon oil spill disaster in 1967 served as a catalyst for the development of Civil Liability Convention of 1969 and formalisation of “polluter-pays” principle in international maritime liability regimes.

Globally, the major insurance markets are in UK, Japan, France and Scandinavia, and therefore widely accepted standard terms have been developed and accepted by all. Law and legislation are fundamentally governed by English Law Marine Insurance Act of 1906 and on the similar principles India codified Indian Marine Insurance Act of 1963 to provide statutory support for P&I cover within national jurisdiction.

Evolution of present-day P&I Cover

P&I insurance evolved in response to shipowners needs. It was also a supplementary cover for personal injury, death, and collision liability which are not covered by hull and machinery insurance. Modern P&I insurance are more comprehensive with standard additional risks like war and defence risks, cargo liability, pollution liability, damage to fix/floating objects, excess collision liability. Extended coverages also included member’s own losses, such as, diversion expense, stowaway handling, costs and expenses of wreck removal, reflecting complexities of marine operations.

P&I clubs are mutual, non-profit nature entities that pool from members and collectively manage and govern liabilities. For large ships - Comprehensive cover for P&I risk at fixed price and forsmall, medium ships and offshore sectorlower limits are in vogue, compared to mutual insurance for large ships, often up to US$500 million, though some providers may offer limits up to US$1 billion. A unique feature of P&I is the “pay-to-be-paid” rule, which directs that member resolve liabilities among themselves before claiming indemnity.

Ecosystem Supporting P&I Insurance

The speaker highlighted the complete ecosystem requirements to support the P&I insurance which includes even trusted agencies for accident / fallout assessments. He gave details of a few notable maritime incidents and how they were dealt across the maritime stakeholders.

MV Kapitan Kud - communication network disruption and security demand

MV Wilma - customs detention and bond delay

KEW Bridge - complex salvage and security issues

MV Baltic Confidence - prolonged legal process and arbitration ruling

MV Enrica Lexie - criminal and liability complexities

These events highlight the need for fast claim handling, refined international legal understanding, and financial flexibility. P&I clubs often depend on swift dispute resolutions to mitigate escalating costs and continue operational flow. They also rely on global network of maritime lawyers, surveyors, etc., who give in-situ & real time support. This consolidated infrastructure anchored by financial security, legal experts, and local presence make sure that P&I clubs react efficiently to multiple operational risks.

India in the P&I Market

The international group (IG) of P&I clubs is largely controlled by Europe and North America, with only Japan representing Asia. Despite having a coastline of ~ 11098 KM and increasing maritime trade, India carries on its dependence on foreign clubs which expose its maritime sector to geopolitical disruptions, risks and sanctions. The dependence became evident during sanctions on Iranian crude oil, as Indian vessels faced challenges in acquiring coverage from American and European insurers.

With limited success India tried to set up P&I facility domestically. The $50 million pooled in 2012 by the insurers to cover Iranian oilwas not sufficient to meet the demand of billion-dollar protection. Later in the year 2018, New India Assurance, DG Shipping and GIC launched a P&I package with fixed premium for coastal vessels that provided coverage of $15 million. Unfortunately, shipowners did not make full use of these provisions, highlighting that the amount was too less in comparison to billion dollars offered by IG clubs, though it was profitable for minor risks. Ultimately, the initiative was not so successful,as it did not reach the critical mass.

Conclusion

Due to recent geopolitical upheavals interest in Indian P&I clubs has increased especially because of Russia – Ukraine war and sanctions associated with it. Need for self-dependence and autonomy have been realised by policymakers, but challenges like lack of knowledge expertise for operations at global level, strong legal framework and lack of financial resources for pooling persists.

Keeping in mind the challenges, the Chair explained, the viable course of action would be to start small. Focusing on coastal and inland shipping with fixed-premium products and simultaneously working on reinsurance partnerships, developing capacity building, claims handling capacity and expanding legal knowledge. Co-operations with IG clubs for technical enhancement and encouraging critical mass for adoption of Indian P&I clubs are also needed. With constant government support India can grow towards becoming a P&I club, protecting it’s maritime industry through self-reliance.

Currently under study, is also the mutual insurance model with an initial corpus fund, where shipowners pool premiums (calls) to cover liabilities. Initially this fund may focus on domestic and coastal vessels, it is expected to involve key stakeholders such as New India Assurance, GIC, and private reinsurers, under IRDAI oversight. Complementing this, a layered reinsurance structure is being proposed, beginning with port-level risk pools and moving upward to market-retained primary layers and pooled excess capacity.

Even for vessels operating within a limited geographical area (domestic waters), the potential for accidents and liabilities remains. P&I insurance helps to mitigate these risks and ensure that shipowners can meet their financial obligations in the event of an incident. With renewed focus on increasing Indian tonnage for coastal and international business Indian shipowners and operators may have to continue to rely heavily on foreign P&I insurers/clubs.

Simultaneously, automation and standardisation of claims—particularly for small and medium vessels, need to be prioritized through digital processing, harmonised forms, arbitration clauses, and maritime-trained surveyors.

While the initiatives face challenges such as limited domestic tonnage, potential delays in global recognition, and continued reliance on international reinsurers, it may be a timely response to strategic vulnerabilities.

With alignment to national programs like Make in India and promoting ship flagging & leasing in India, the Indian P&I initiative has the potential to evolve into a vital maritime safety net and a milestone in India's Blue Economy vision. Since, P&I insurance is a specialised segment of Marine Insurance and covers the liabilities arising out of the operations of an ocean going ship, a better understanding of its evolution and its scope is fundamental to its successful implementation and capacity building.