



Changes to crew employment terms

JANUARY 2009

Executive summary

There has been a significant amount of press coverage over the last year about crew supply challenges facing the shipping industry. Steps related to terms of employment which shipowners take to improve recruitment and retention of good crew often have a direct impact on P&I claims.

The purpose of this note is to remind Members to review crew contract terms with the Club, particularly any permanent employment contracts.

Claims cost increases:

For the UK Club, the number of crew claims reported remains relatively constant. However, the Club has seen an upward trend in the average cost of personal injury claims, which can have many causes, such as the impact of medical costs. Higher wage and benefit levels in contracts are also causes.

Wage and benefit increase effects:

Wage increases directly increase P&I claims, and not just in the obvious instances of sick wage payments. Some death or disability compensation scales use wages when determining benefits.

Industry comment and reports from individual Members refer to double digit wage percentage increases over recent years. These wage increases translate directly into higher claims on the Club.

Permanent Employment Contracts:

Some ship owners are also increasing the numbers of permanent employees, particularly highly skilled officers involved in energy transport.

Unlike traditional crew contracts which end when a crew member leaves the vessel, permanent crew

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employment contracts are ended by notice and the crew remain employees whilst on shore leave.

These contracts are also known as "24/7" contracts. Permanent contracts have obvious retention benefits for crew and owner.

However, where an owner has permanent employees ashore the owner must consider the insurance implications for illness, death and disability benefits provided in the contracts.

In some jurisdictions mandatory health or life insurance laws or schemes may exist, which may also create tax, insurance certification or other obligations. In those situations, domestic underwriters may be the best insurance option for owners.

In other circumstances, the Member may wish to have its contractual obligations for benefits which are covered P&I risks to be covered by the Club.

To do so, the Club must agree to the terms of the 24/7 contracts, which include the period the crew member is not serving on board, or travelling to and from the ship, as is normally the period of P&I coverage.

Requirement of Club Approval of Crew Contracts:

However, to the extent Members wish to have cover for contractual benefits, the Club would like to remind all Members of the need to ensure that the Club is made aware of the contractual relationship entered into with employees (crew), not just those involving permanent employment, or 24/7 contracts. The requirement is set out in the Rules.

Club Review of Members' 24/7 Crew Contracts:

Whilst 24/7 contracts are not the norm in shipping, the Club has recently been asked to examine several.

In light of the potential increase in exposure, the Club would appreciate receiving notification of any Permanent Employment, or 24/7 Contracts.

Summary

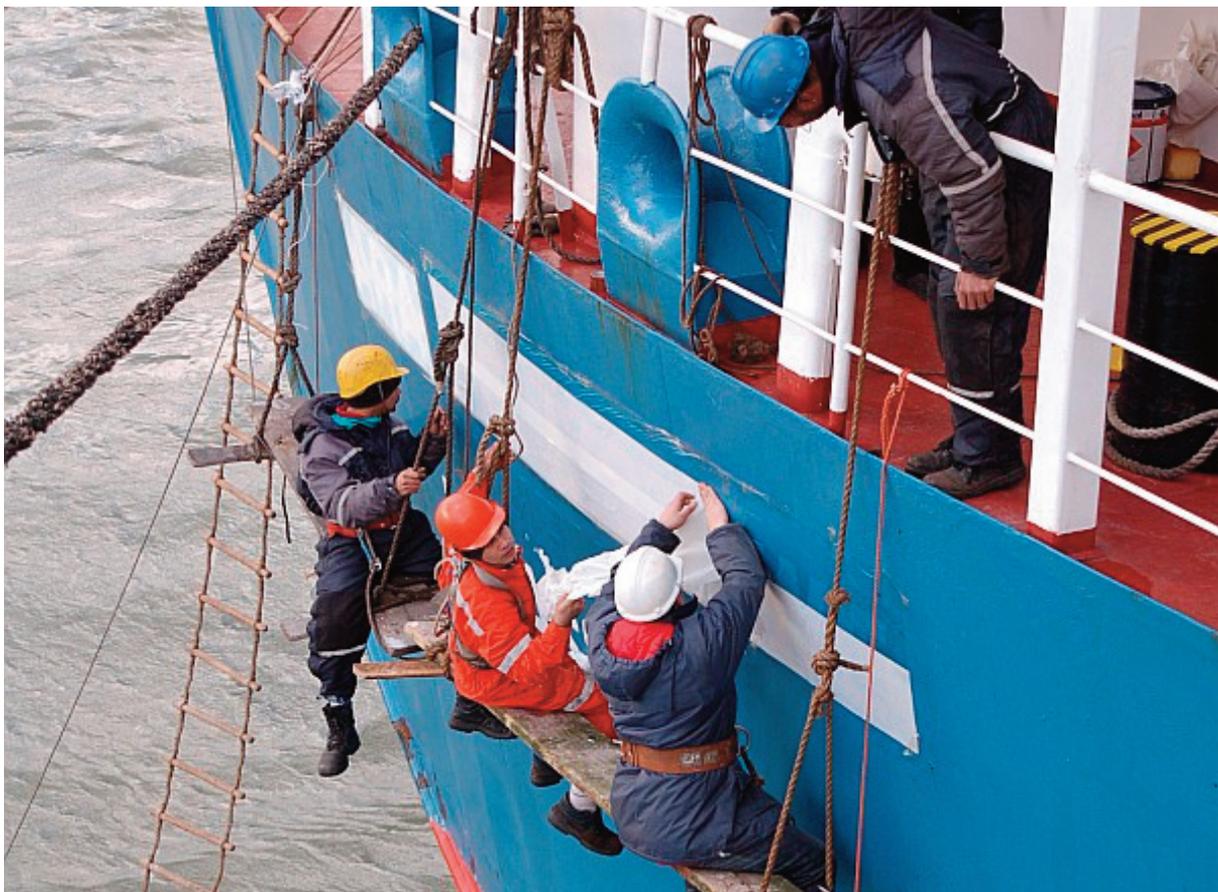
The Club managers see many crew contracts world wide. Members may benefit from advice from the Club whilst a new contract is being negotiated.

Where possible, the Managers are happy to provide guidance, in addition to recommending potential changes that could be made, where appropriate.

With questions please contact:

Mr John Turner, Area Director, People Claims Department, john.turner@thomasmiller.com

Mr Tony Nicholson, Director of Claims, People Claims Department, tony.nicholson@thomasmiller.com



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