

Poseidon Principles for Marine Insurance- Effective Private Governance Tool?

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The Poseidon Principles for Marine Insurance (PPMI)

- **A commitment from signatories (h & m insurers) and affiliate members (insurance brokers and collective groups, i.e. insurance associations, unions, captives and P & I clubs):**
 - ❖ **to gather data from their clients (assureds) and assess climate alignment of an insured vessel/portfolio (in cases where the signatory is a leading insurer or if the signatory is a follower but the leading insurer is a member).**
 - ❖ **And then to publish the results of such assessment on an annual basis in line with the technical guidance provided by the PPMI. The signatories' overall weighted alignment score is made publicly available (not each vessel's alignment)**

Climate Alignment Assessment

- ❖ **Climate alignment assessment is undertaken against two trajectories: i) IMO's ambition of reducing shipping's total annual greenhouse gas (GHG) emissions by 50 % by 2050 compared to 2008; and ii) net-zero GHG emissions by 2050 target (set by Paris Agreement), i.e. 100 % CO2 reduction trajectory).**
- ❖ **The chosen metric for carbon intensity is annual efficiency ratio (AER)- the same metric used by IMO-mandated carbon intensity indicator (CII) (it was thought that this would provide administrative efficiency)**
- ❖ **AER uses the parameters of fuel consumption, carbon factor of the relevant fuel, distance travelled, and deadweight tonnage at summer draught, producing a unit of grams of CO per dwt-nm.**

Main objectives of the PPMI

- **To generate knowledge and awareness to guide and support marine insurance clients and the industry in decarbonisation of the world's ocean going fleet.**

So this effectively means:

- ❖ **Informing progress of decarbonation efforts (so as to influence several initiatives such as the Carbon Disclosure Project (CDP), the Task Force on Climate Related Financial Disclosure (TCFD) and the Science Based Targets Initiative (SBTi)**
- ❖ **Supporting clients in achieving decarbonisation targets (by influencing clients' business activities- the signatories indicate that they will use climate alignment to initiate constructive dialogue with the clients to support the transition of ships in towards their decarbonisation goal).**

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2022 Annual Disclosure Report

This reflected the data collected from assureds by signatories (2021)

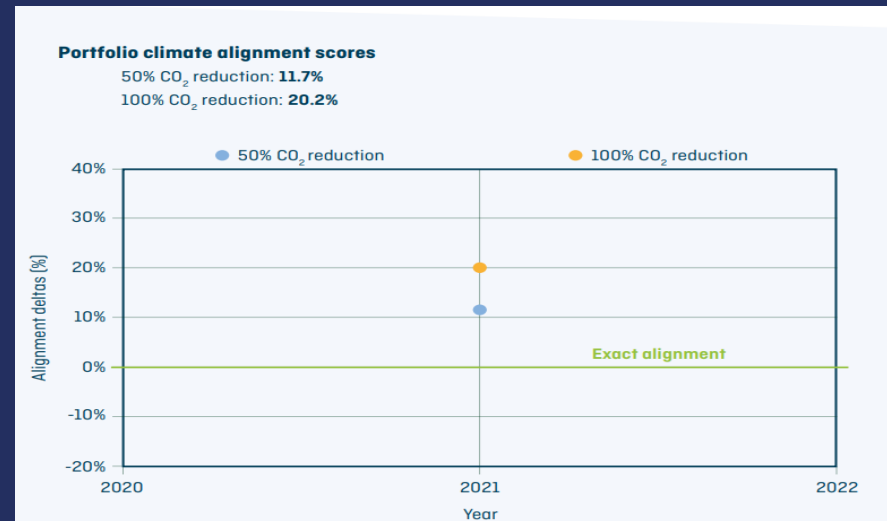
The signatories' portfolios are 12.7 % above a trajectory aligned with 50 % reduction in CO2 emissions by 2050 and 20.8 % above 0 % emissions target.

As of January 2023, there were 9 signatories, 9 affiliate members and one supporting partner.

Axa, Fidelis MGU, Gard, Hellenic Hull, NAVIUM, Norwegian Hull Club, SCOR, Swiss Re and Victor (signatories)

Critique of the PPMI:

i) We do not know what percentage of the insured vessels (operators) responded to the request for data from associates (e.g. what percentage of the vessels they insure are taken into account when publishing the portfolio scores)



Norwegian Hull Club

The signatories should calculate the % of its eligible H&M portfolio for which it cannot report – i.e. unable to collect data and submit this to the Secretariat- we do not know to what extent this has been done (Technical Guidance to Associates state this)- this is an area that needs to be monitored and reported.

ii) We do not know what kind of engagement (discussion) the associates are having with their clients.

- The Technical Guidance to Associates indicate that in the internal report submitted to the Association associates must give more detailed information as to their engagements with clients. Perhaps, this is provided to the Association but there is benefit making more of it publicly available.

Examples from 2022 Annual Disclosure Report:

Gard – “will continue to engage with customers to support the measures needed to move in the right direction – convert to alternative fuels and propulsion.”

Fidelis MGU – Recognise they have to partner with clients on transition and remediation plans. (Sustainability at Fidelis MGU Report)

a) The data collection from assureds will be more formal going forward:
PPMI Standard Covenant Clause:

Any/all Assured(s) hereon shall supply or procure the supply to the Claims Leader (whether directly, to such physical and/or electronic address as provided to the Assured(s) for the purpose of this clause, or via the broker(s) for provision to the Claims Leader) the PPMI Data in respect of any/all Ship(s) insured by this policy on or by [10 October] each year. The Claims Leader is authorised to share the PPMI Data with other PPMI Signatories subscribing to this policy, and all PPMI Signatories in receipt of the PPMI Data are authorised to share with Calculation Provider(s). [The Assured(s) hereon shall also, upon written request by any PPMI Signatory for the PPMI Data, provide it or procure its provision to that Signatory within 10 days of the request. Such request may be made directly to the Assured(s) or the broker].

What will be the consequence of failing to provide data?

- Will the associate (insurer) claim breach of contract- i.e. breach of a collateral condition (contractual warranty) resulting in damages?
- Will the associate go further and claim breach of continuing duty of good faith especially if the breach is deliberate? (*Drake Insurance plc v. Provident Insurance plc* [2003] EWCA Civ 1934)
- Or will the associate rely on commercial remedies- refusing to renew the cover (plausible in a soft market and sensible?)

b) Could we expect the PPMI Association be more prescriptive and expect associates to report on their engagements with the assureds?

Could we expect the Association to require associates to ensure that they collect data from most if not all of their clients (if necessary by enforcing the PPMI Covenant Clause)?

Currently there is a requirement to report (Rule 7(b)) and sanctions can be imposed in case of failure to report by the Association but could it go further and indicate that the portfolio published must reflect at least 80-90 % of the insured fleet?

Final words

- **The PPMI is a private governance tool:**
 - **It aims to get providers of h & m insurers on board so that they will be a part of transition by reporting on the progress and providing guidance to their clients on decarbonisation.**
 - **It is a good start but to be effective it needs to evolve so the Association must take an active role and expect associates to ensure that i) they gather more data (yes there is now a requirement to incorporate the PPMI standard covenant clause into the contracts with clients- but to what extent this will be enforced?) ii) report more (publicly) of the steps they are taking to assist their clients to achieve decarbonation targets (that will not only provide guidance to others but also will show how seriously they are taking their role in assisting their clients with the transformation).**

Thank you!

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