

Isolated Iranian banking system could cause difficulties re Sanchi



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A reluctance of foreign banks to deal with Iran could complicate any compensation payments resulting from the collision of Iranian oil tanker Sanchi and Chinese bulk carrier CF Crystal, reported Reuters, citing unnamed sources.

As yet, liability is unclear, but wherever the fault lies compensation payments could be slowed or even blocked because the tanker and most of its crew were from Iran.

There are US restrictions on financial transactions with Iran, even after the lifting of international sanctions against the country in 2016 following its nuclear deal with world powers.



Picture from Pixnio

Rahul Khanna, global head of marine risk consulting with German insurer Allianz, said losses from the collision could reach hundreds of millions of dollars. "The value of the cargo and the value of the hull itself would be one major impact, but I think the oil pollution liability aspects are probably the largest element," he said, while noting that the environmental impact would be less severe than for a heavy crude spill, because condensate evaporates quickly and would not cause a major oil slick.

There could be payment problems whether Iranian parties are the beneficiaries of any compensation, or are found liable.

Nigel Kushner, chief executive of law firm W Legal and an Iran specialist, told Reuters that any compensation process would be complex as there were four different insurance issues at play: the ship itself, or the hull, the cargo, pollution and the deceased. "It will probably be perfectly legal for insurers to pay, but in practice near impossible," Kushner said. "Numerous insurers will be involved requiring multiple payments. We have seen lengthy and frustrating delays for clients previously with respect to insurance payments coming out of the Lloyd's market when payments are delayed or blocked."

US financial institutions and are prohibited from any trade with Iran. While non-US banks can do business with Iran, transactions denominated in US dollars can be difficult, as they must not involve the US financial system in any way and that can be difficult in practice. Large Western banks are wary of dealing with Iran “just in case”.

“As a general matter, despite the sanctions relief contained within the JCPOA, there is still great difficulty in Western banks processing payments to Iranian counterparties, no matter the currency,” Matthew Oresman, a partner with Pillsbury Winthrop Shaw Pittman, who advises companies on Iran compliance, told Reuters, adding that “for this specific incident, depending on the source of the insurance funds and the process by which it is to be delivered to Iranian recipients, there could be difficulties for the policy holders or other beneficiaries”.

Compensation claims for major oil pollution incidents in recent years have largely been handled by the International Oil Pollution Compensation Funds (IOPC Funds) inter-governmental body, which provides compensation for disasters over and above insurance company caps on payouts, but condensate is not covered by IOPC Funds. The compensation this time round would fall under China’s COPC Fund, which is considerably smaller.

Steamship, with which Sanchi is entered for P&I, said that “we have been very busy over the weekend with our emergency response. Clearly a major incident and we are doing all we can to support the members”.

For hull, 70% of the value of Sanchi is covered by 11 international insurers, led by Skuld, with the other 30% covered by Iranian insurers, according to Skuld CEO Stale Hansen.

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