

Cross Liability Adjustment

Assume that both vessels in an example collision are insured for 3/4th collision liability with their hull underwriters and for 1/4th with their P&I Clubs. In the example vessel A is 75% to blame for the collision and vessel B is 25% to blame. Vessel A suffers damage costing \$100,000 and vessel B damage costing \$200,000. The payments by each underwriter are illustrated below.

In most maritime jurisdictions, the question of responsibility for collisions is determined with reference to the International Regulations for the Prevention of Collisions at Sea, which codify how vessels should conduct themselves in order to avoid collisions. The apportionment of liability between the vessels is normally based on the causative importance of any breaches of these regulations (COLREGS).

	Vessel A	Vessel B
Percent to blame	75%	25%
Own damage	\$100,000	\$200,000
Liability to other vessel	\$150,000(75% \times \$200,000)	\$25,000(25% \times \$100,000)
U/Ws pay	\$112,500(3/4 \times \$150,000)	\$18,750(3/4 \times \$25,000)
P&I pays	\$37,500(1/4 \times \$150,000)	6,250(1/4 \times \$25,000)

Thus each collision liability underwriter reimburses its share of each vessels gross liability to the other vessel.

Single Liability Adjustment

If the damage exceeds the tonnage limitation amount then one or both of the ships will seek to limit liability.

When limitation of liability is granted it is applied to the tonnage of the vessel having the net balance to pay. In the example, Vessel A has the single liability (net settlement) and is entitled to limit liability in respect of Vessel Bs claim to \$100,000. Payment by the underwriters and the P&I clubs of each vessel will be adjusted on a single liability basis. This means that the net liability of one ship to the other is first calculated, in this example that of Vessel A to Vessel B, and then the limitation tonnage is applied to that net figure – arriving at a limitation single payment of US \$100,000. The other vessel having been unable to recover its full claim because of the effect of limitation is treated as having no liability to pay its share of collision damage.

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Percent to blame	75%	25%
Own damage	\$100,000	\$200,000
Liability to other vessel	\$150,000 (75% \times \$200,000)	\$25,000 (25% \times \$100,000)
H&M pay	\$112,500 (3/4 \times \$150,000)	\$18,750 (3/4 \times \$25,000)
P&I pays	\$37,500 (1/4 \times \$150,000)	\$6,250 (1/4 \times \$25,000)
Net settlement	\$125,000 paid to B	
Limitation amount	\$100,000 paid to B	
H&M pay	\$75,000(3/4 \times \$100,000)	
P&I pays	\$25,000(1/4 \times \$100,000)	

Vessel As hull underwriters will pay \$75,000 [3/4ths of the limitation amount] and the P&I club will pay \$25,000 [1/4ths of the limitation amount] Since Vessel B is treated as having no liability, Bs collision liability insurers [Hull and P&I] will pay nothing.