

Marine Insurance

Does it play a role in maritime security?

NTU 19th October

Intention of the speech

- **To give a brief background to marine insurance, the markets and insurable interests**
- **To initiate a discussion on how insurance and insurers can provide increased security awareness and implementation of higher standards on board, on shore, crew issues etc.**

Why marine insurance??

- Legal obligation?
- Commercial obligation?
- Part of the owners risk management?
- Reducing risks?
- Reducing exposure?
- Enhancing security?

- **Grounding**

Errors can potentially occur anywhere in the transportation chain. Many employees of shipping companies, forwarding agents and container packers are poorly informed about dangerous goods hazards and IMDG Code requirements. Their lack of awareness or regard for safe and professional packaging, loading and documenting of containers could make them unwittingly responsible for massive explosions and fires at sea.

Which losses have incurred?

- **Who have suffered a loss?**
- **Other costs?**
- **Freight loss?**
- **Collision liabilities?**
- **Liabilities?**
- **What about salvage, wreck removal, oil pollution, clean up, emergency response services etc?**

How can you cover your interests as a shipowner or charterer?

- **Capital interest (H&M, Hull Interest)**
- **Income interest (Loss of Hire, Freight interest)**
- **Potential legal liabilities (P&I, H&M)**

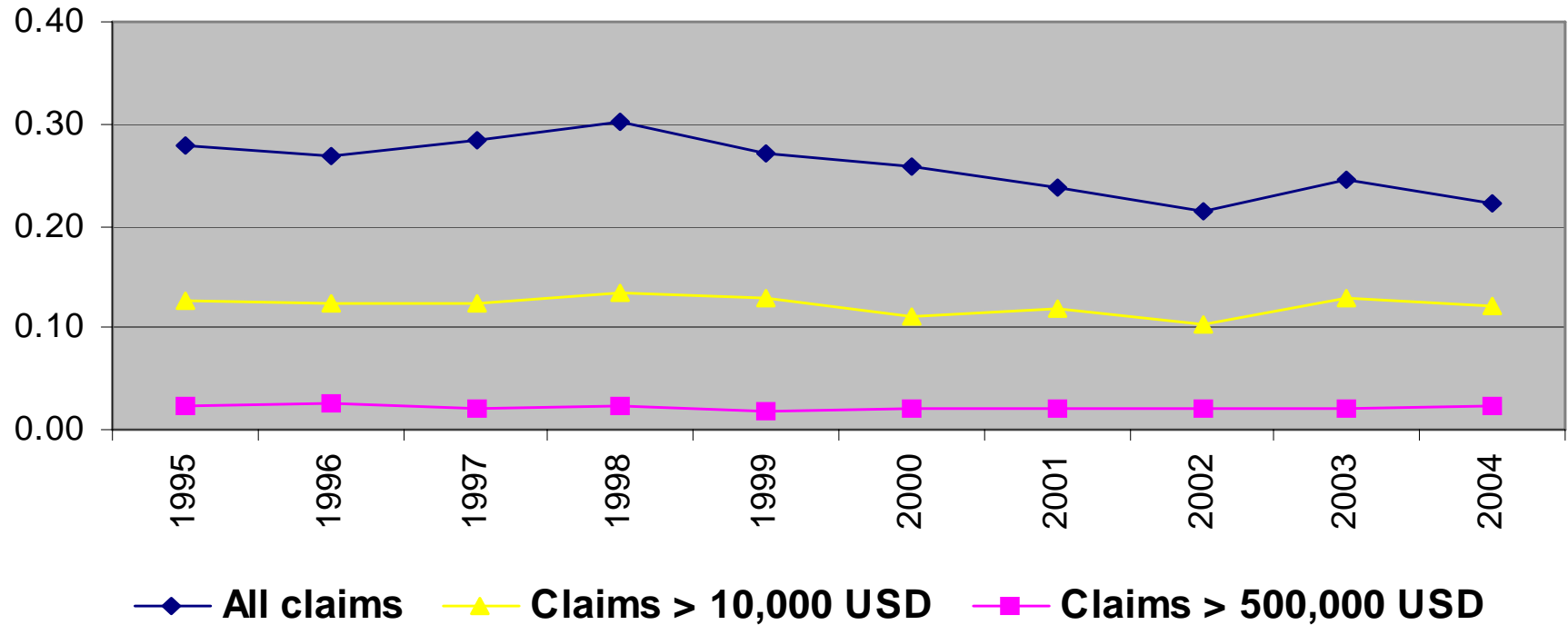
- **Markets:**
- **Scandinavian, English, other**
- **Few markets – few players – high risk profile**

Markets cont

- Norwegian/Scandinavian market a major player
- Accounts for nearly 25% of all covers
- Covers on Norwegian terms may be bought in London and vice versa
- Japan – closed market with few providers (Tokio Marine, Nippon Fire, Mitsui Sumitomo etc)
- Others: USA, Far East, France, other European markets
- More than 60% being written in Europe

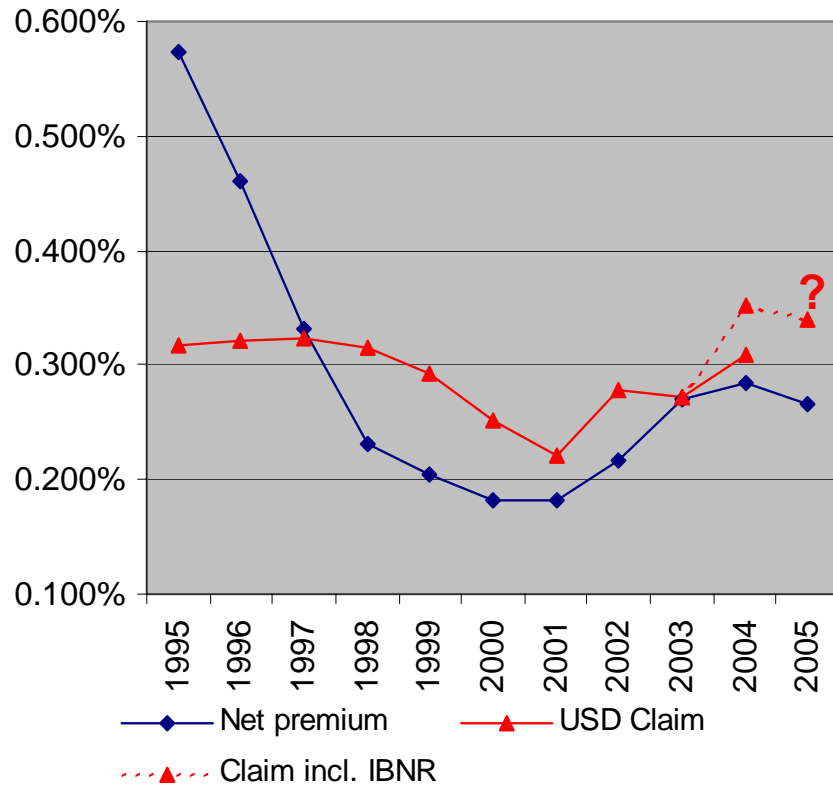
Claim frequency

Claims frequency per underwriting year

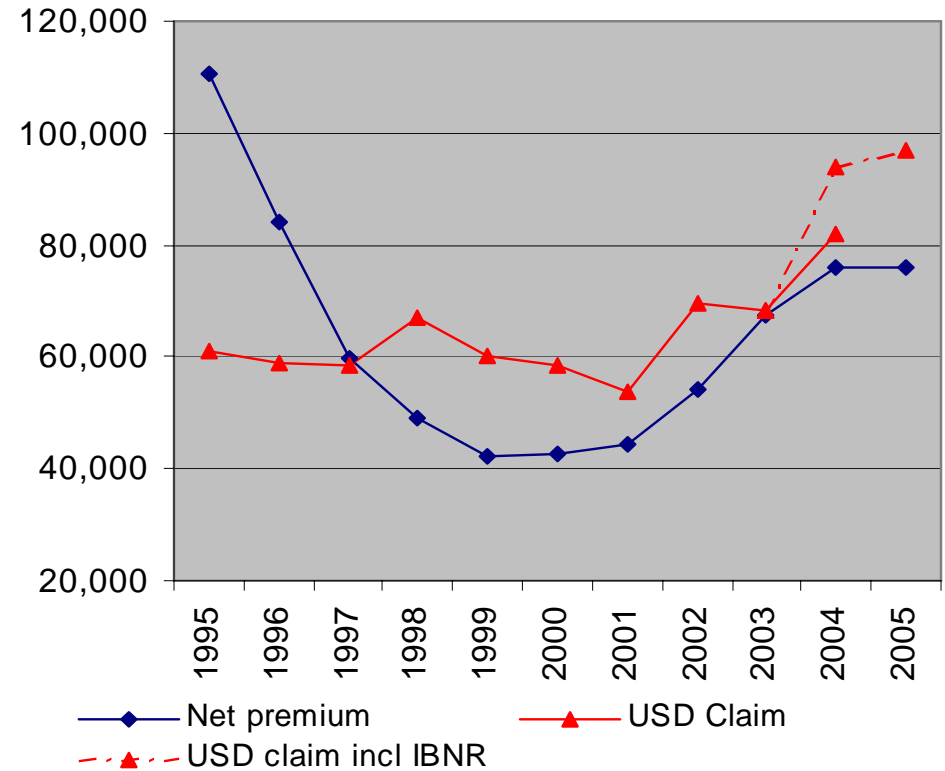


Claim and Premium per SI & Vessel

Premium and Claim per Sum Insured



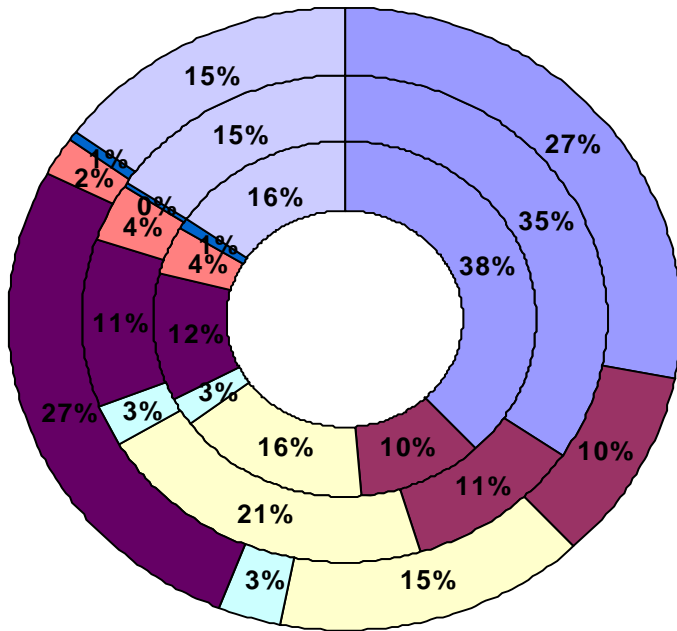
Premium and Claim per Vessel



Claims by claim type - Distribution

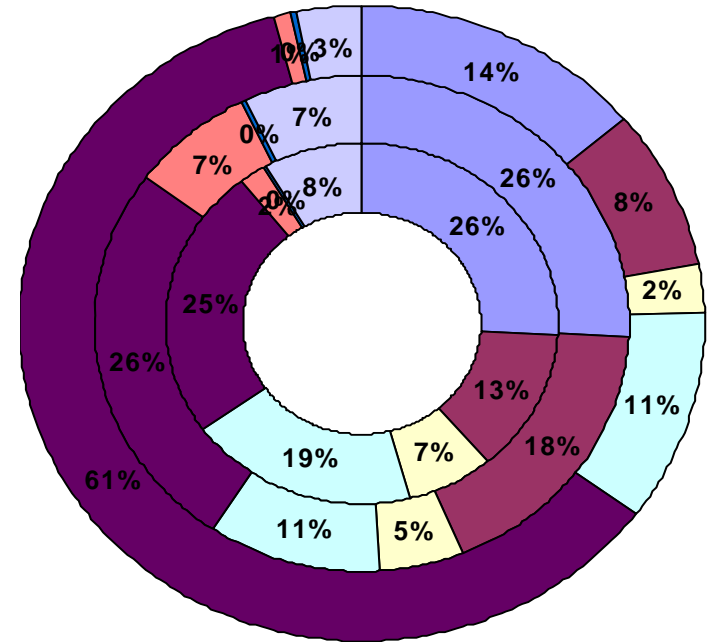
Numbers (%)

Inner ring: 1999-2003
 1st outer ring: 2004
 2nd outer ring: 2005



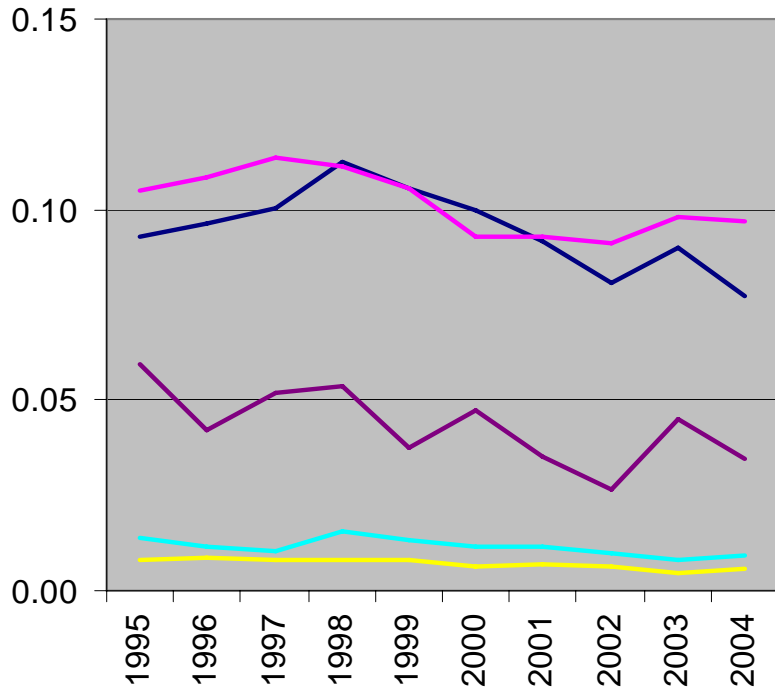
Costs (%)

Inner ring: 1999-2003
 1st outer ring: 2004
 2nd outer ring: 2005



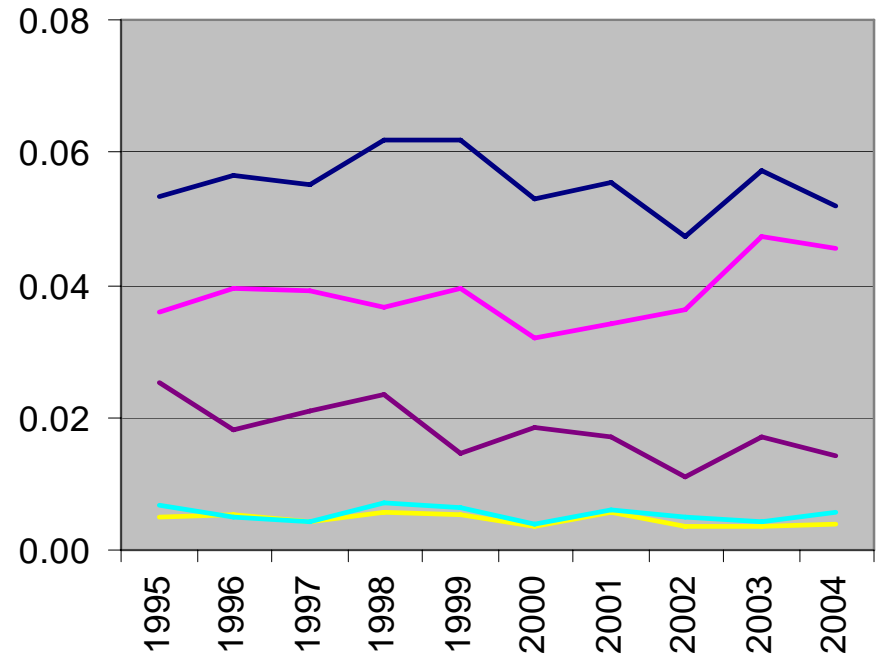
Claims by claim type - Frequency

Claim frequency, all claims



- Machinery
- Collision, Striking, Grounding, Ice
- Fire/Explosion
- Heavy weather
- Other

Claim frequency, claims xs 10,000 USD



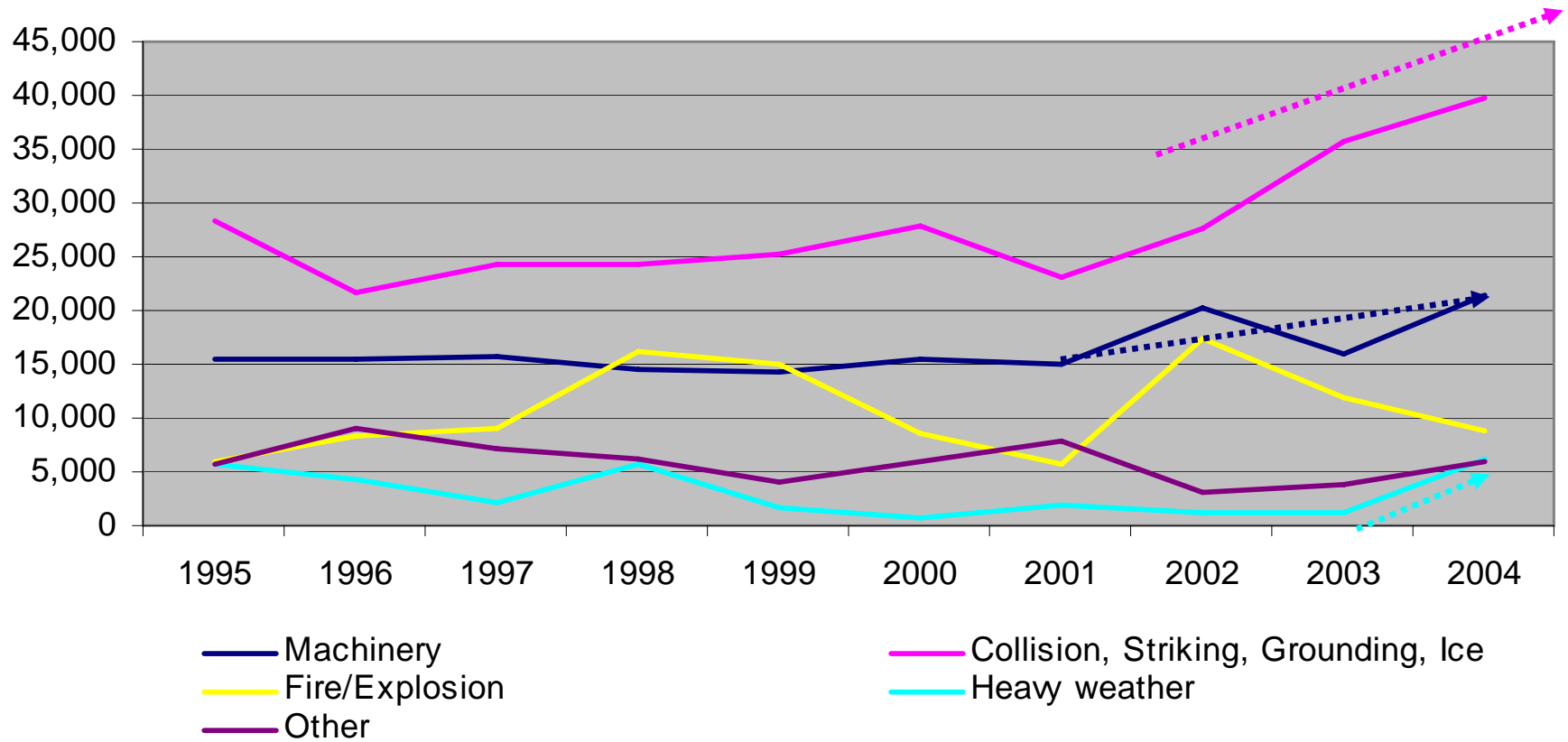
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**Many navigation
Related claims < 10' USD
(Survey Fees etc.)**

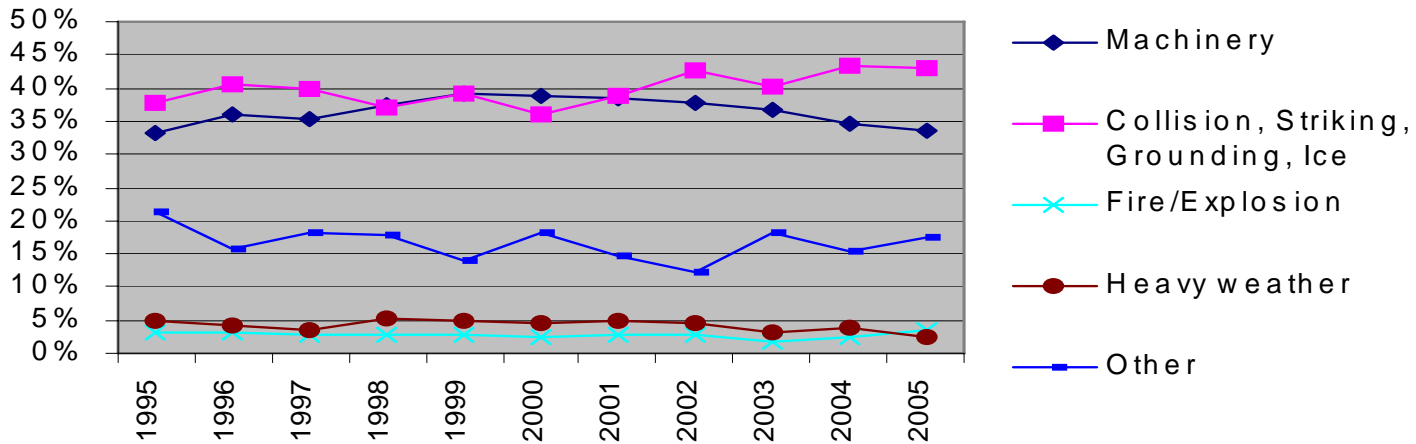
Claims by claims type – Claim pr. vessel

USD Claim per vessel

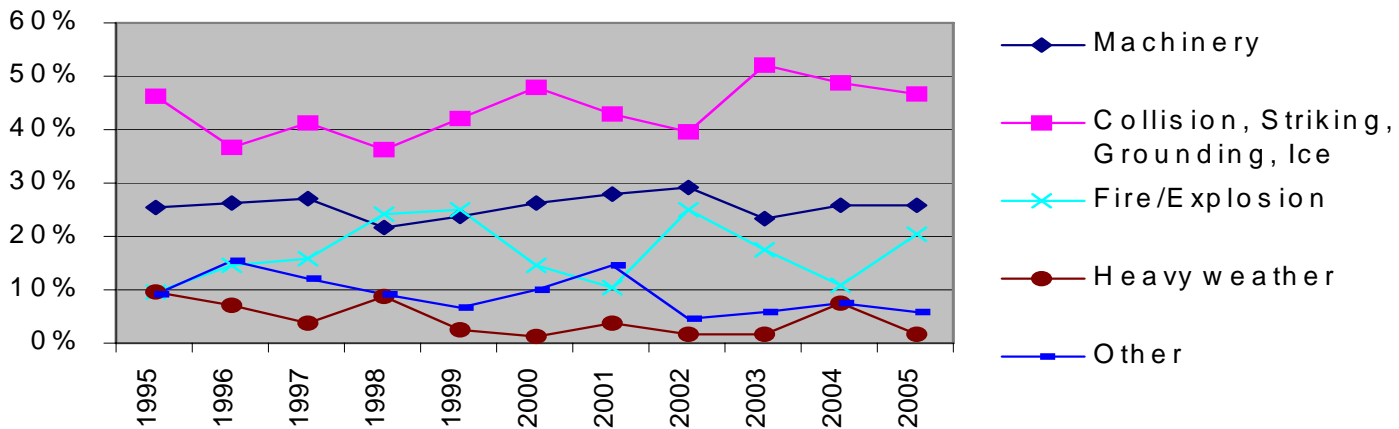


Evolution of claim distribution by type

Claim per type in % of all (Numbers)



Claim per type in % of all (Cost)



Summing up general trends

- **Strong increase (>50%) in PA claims from 00-02 til 03-05.**
- **2004 underwriting year worse than all comparable years.**
- **Increase in most claim types, but worst for nautical-related claims.**
- **Low PA claims 2000-2002.**
- **No negative trend for total losses.**

Speculations regarding Risk Factors

- **Strong increase in insured vessel values**
 - ⇒ **Less constructive total losses and higher partial losses.**
 - ⇒ Relative impact on claims rate and TLO rate
 - ⇒ Increase in partial loss per vessel, but reduction in partial loss per sum insured?
- **Strong increase (doubling) in steel prices.**
 - ⇒ Increase in partial loss per vessel, but not necessarily in partial loss per sum insured.
 - ⇒ Increased risk for constructive total loss.
- **Significant weakening of USD in the period 2002-05 (EURO:+40-50%).**
 - ⇒ Increase in partial loss per vessel, and partial loss per sum insured since claims are reported in USD and repaired in other currencies.
- **Booming freight rates, congested waters, modern tonnage, increased speed, crew issues etc. etc.**

Insurance – part of the owners risk management:

The owner will consider the following:

- Identification of risk objects and perils, values at risk, primary and consequential losses

Risk management cont

- Allocation of funds to cover premiums and costs not covered by insurance
- Utilization of insurance services (broker, markets, lead-claims-lead, possibility of captive)
- Loss prevention programmes

The insurer and his strategic decisions

- Strategic decisions as to which risks to underwrite
- Underwriting guidelines
- Companies ususally have strategic models, containing the following;

Why disasters and claims?

- Human errors cause most of them
- Why increased payments? Highs steel prices, frequent smaller claims, inadequate crew?
- What can be done?

With the arrival of the ISPS deadline, returns submitted to IMO from governments representing 22,539 ships and 7,974 ports suggest that some 40% of ships may still lack the required International Ship Security Certificate (ISSC), with a similar percentage of ports having no approved Port Facility Security Plan.

How can insurers improve security?

- **Stricter requirements for cover**
- **Key words being:**
 - **flag state control**
 - **Classification societies**
 - **Loss prevention routines**
 - **ISM code**
 - **ISPS code**
 - **SOLAS etc**
 - **Certificates**
 - **Port restrictions**
 - **Crew control**

Discussion

- Questions
- Summary

