

Piracy - The Underwriting Issues

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Perception and Reality

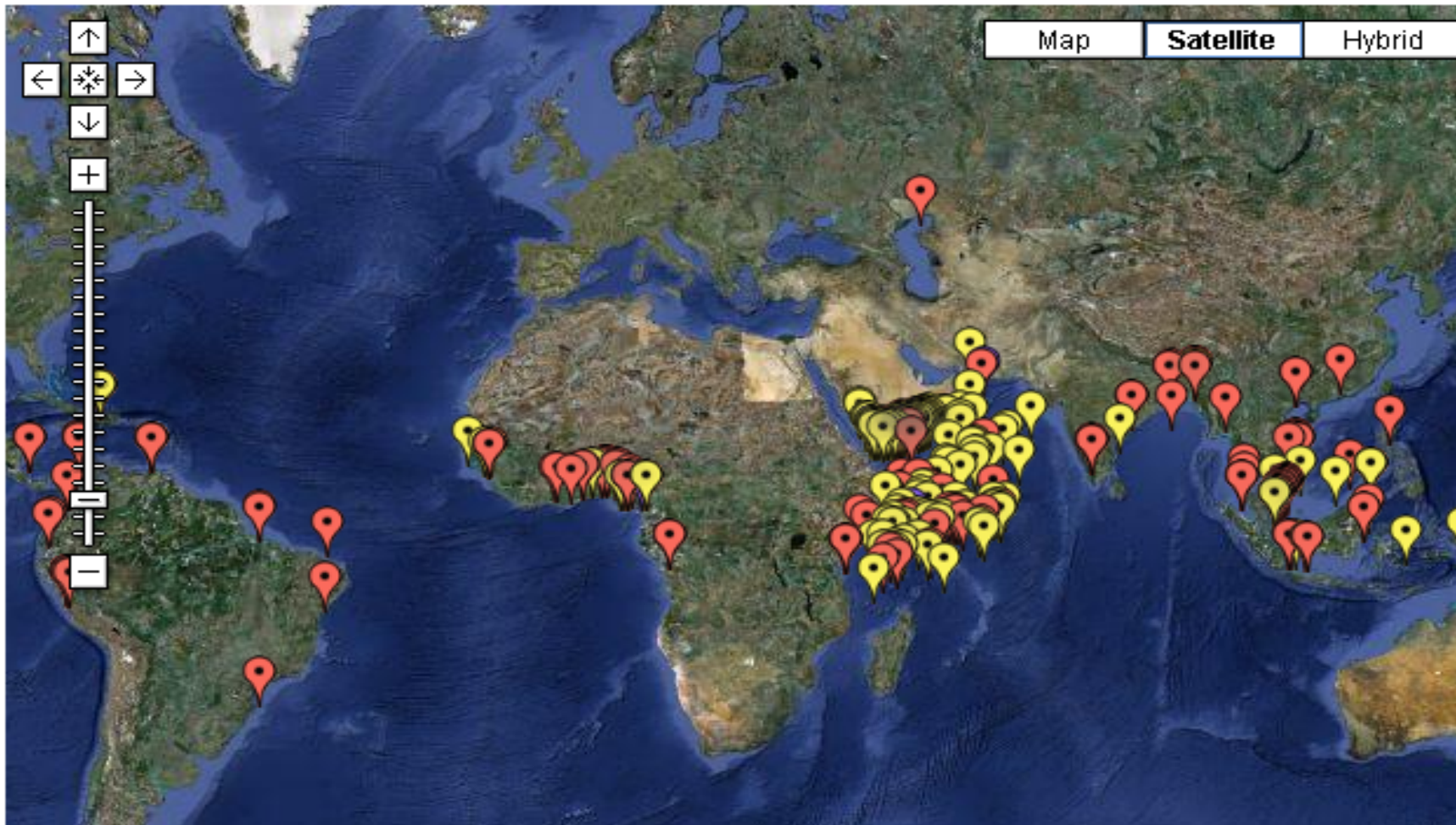


Piracy Background

- Not a new problem
- Traditionally low cost
- Malacca Straits
- Evolved – a business, using mother ships
- Statistically low risk - 50 taken from 20,000
- Some complacency

IMB Map of Global Piracy 2009

 = Actual Attack  = Attempted Attack  = Suspicious vessel



Basic Principles for Assureds

- Under the UK's Marine Insurance Act:
- The marine adventure must be lawful
- Assured must have an interest
- Utmost good faith
- Sue and Labour — *It is the duty of the assured and his agents, in all cases, to take such measures as may be reasonable for the purpose of averting or minimising a loss*

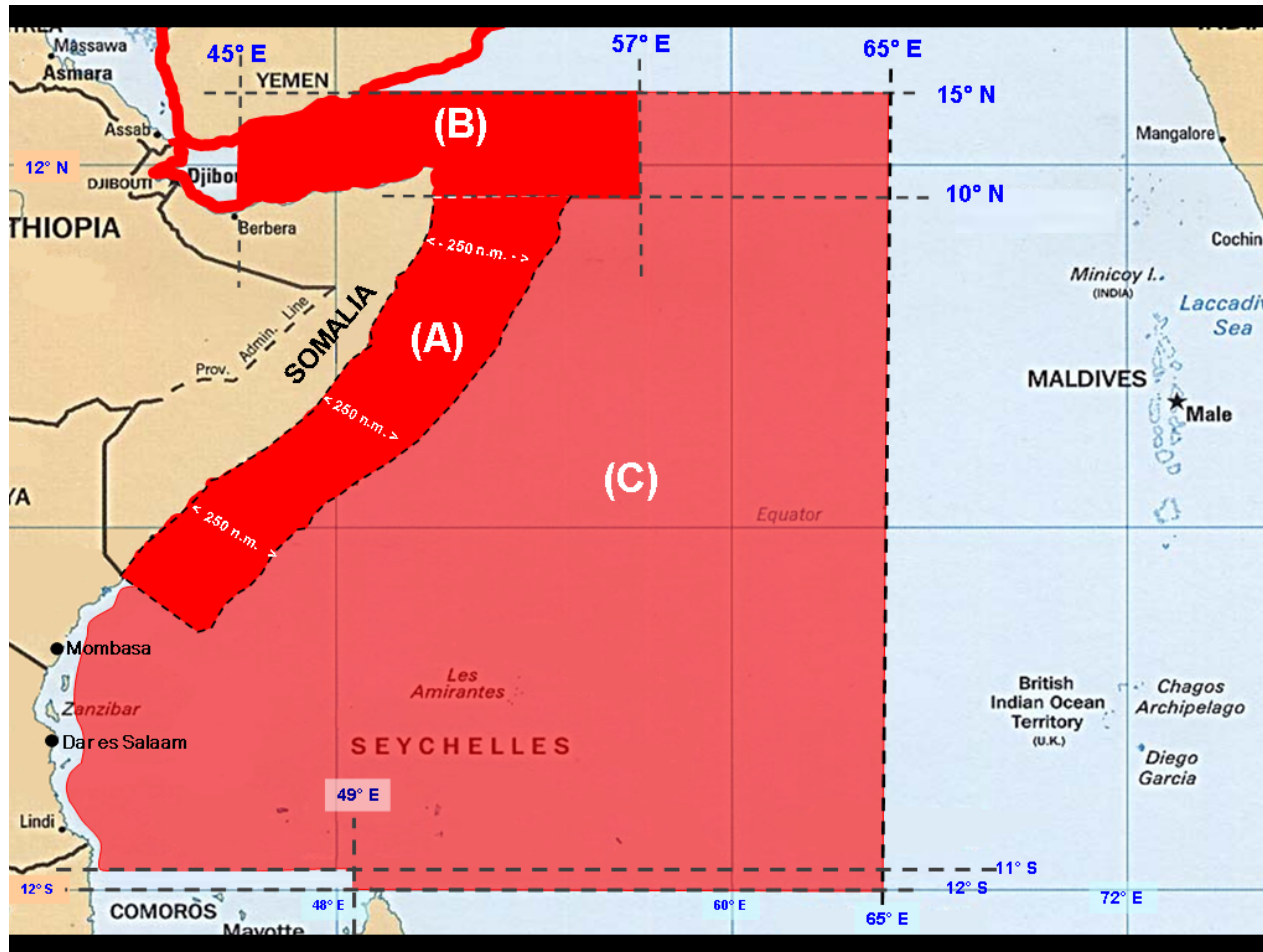
Underwriters and Coverage

- For UK insurance, piracy is robbery on water
- 4 coverages - Hull, Cargo, Liability, War
- Post Malacca - Where should piracy perils be covered?
- London insurers moved the peril to war
- Clarity of coverage – no dispute on cause

JWC Listed Area

Requires notification – gives underwriters a chance to react

Map prepared by Marsh



General Average (GA)

- Ransom is not a normally covered peril
- GA mechanism predates insurance
- GA is declared by the owner
- The proportionate remedy – indemnifies owners
- Will only continue to work if all parties accept it



Kidnap & Ransom

- Was a niche market for target individuals
- Now offers specific cover for ship ransom
- Offers cover for negotiation team and delivery expenses
- Still requires a loss to be incurred
- Expense limits the take up
- If bought, discounts available

The Costs

- GOA - Suez toll plus crew wages plus AP
- Or 10-14 days loss of charter earnings
- Fuel is burnt anyway - not extra
- But what is the loss if hi-jacked?
- 74 Ransoms paid since May 2008
- 60-90 days, ship damaged, crew trauma
- APs are kept low by competition

Ransom

- Not illegal under English law
- *Masefield* decision – payment is not contrary to public policy – follows *Boskalis* case
- If outlawed – K&R market stopped
- PD insurers still on for PD
- Crew more exposed
- Higher risk of total losses



Armed Guards

- Firstly a choice for shipowners
- IMO position is against escalation
- Flag states have varying views
- Underwriters judge effect on the risk
- P&I clearly has different exposure



Ship safety

- Underwriters encourage BMP & SPM
- Crew preparation, training, drills
- Register with UKMTO
- Transit registration with MSC(HOA)
- Use of the GoA Transit Corridor



BMP and SPM



A vulnerable transit

Low speed, low freeboard = escort



Fierce Competition

- Underwriters differentiate on vessel types
- They decline those not following BMP
- Risk exposure is high
- Price is heavily discounted – zero in some cases
- Otherwise they lose the business



Wider Issues

- Djibouti Code of Conduct – no results
- Jurisdiction – cannot easily prosecute
- Naval co-ordination and RoE
- Double standards on crew treatment
- Re-routing is weather dependent
- Press interest
- Trade continues at a cost - will be passed on

What if ?



Environmental Disaster



Conclusion

- Still economic for ships to transit
- Underwriters supporting shipowners
- Risk reward ratio favours pirates
- Ransom payments are escalating
- Naval support crucial but finite
- The cause is ashore, so no end in sight





Turmoil is the driver

