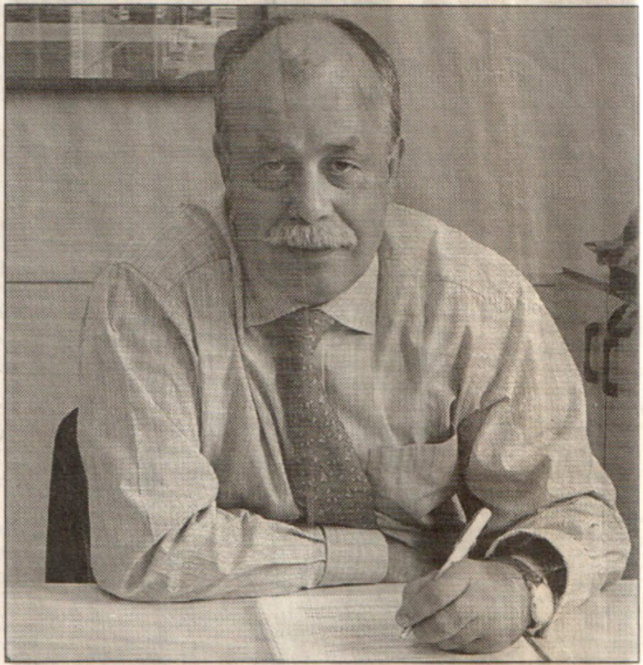
London

Set the P&I market
substandard shippi

Marine insurance expert **Jonathan Jones**, right, argues that a more competitive atmosphere would help insurers bolster the fight against substandard shipping



I REFER to the recent report "The removal of insurance from substandard shipping" for the OECD maritime transport committee, by Terence Coghlin.

In it, the author makes many interesting points and attempts to contrast the underwriting styles and approaches of the commercial underwriter (hull or P&I) and the International Group P&I Club underwriter.

He also attempts to divert attention away from the P&I club underwriter by claiming that there is a weak correlation between the quality of a ship operator and the incidence of his maritime liability claims. On both these and many other points he is fundamentally overlooking both the real problem and the only sensible solution.

First, the author makes no attempt to define the substandard ship operator, other than to state that he is "one who does the bare minimum" to comply with shipping standards and regulations. This is insufficient when considering how to tackle the issue of substandard ship operators. There is a lost opportunity in his report to attempt a definition of a substandard operator. I can assist with a definition of a quality operator, along the lines of a questionnaire, drafted by my team of marine technical advisors.

Second, by arguing that mutual not-for-profit underwriters in some way take greater care over their underwriting than profit-driven commercial underwriters, the author attempts to make the case for mutuality whereas in reality both sets of underwriters are equally guilty if they provide insurance cover to substandard operators.

The issue therefore is not whether a substandard operator can gain insurance cover as he invariably will, but the limits of insurance cover that the substandard operator can access. In fact, one of the inherent (negative) aspects of the International Group of P&I Clubs is that substandard ship operators have access to $4.25bn worth of cover, a figure which the author points out is many multiples of the insured value of individual ships, typically provided by the commercially driven hull underwriters.

The begging question is whether substandard ship operators' risk profiles would change if liability limits were not readily available across the board: would they trade internationally or carry persistent cargoes, and how would charterers and financiers react? As has been witnessed by casualties such as the *Prestige*, liability claims are generally limited to levels as stipulated by international conventions.

Third, the author argues that the International Group P&I Club underwriters are "an integral part of the shipping industry". This means that they have an even greater responsibility to the industry to squeeze out

Indecs called in as adviser to Q

By James Brewer

LONDON company Indecs has had an exclusive insurance consultancy agreement extended to embrace ... porter in the LNG market before 2010, which will demand extensive vessel and offshore ...

Pipelines will be installed to shore and will support new LNG trains at Ras Laffan ...

Mr Peachey and his colleagues revived the name Indecs, which it used before its ...

free to combat ng cover

substandard operators by reducing their capability to access the same limits as the quality operators.

Fourth, the author's suggestion that the IMO should draw up a list of approved insurers, who are "strong and discriminating", for insurance cover is unworkable. Any IMO member country that felt its insurance providers were being discriminated against would vote against the proposal.

Furthermore, a large P&I claim against an IMO-approved insurer could lead to repercussions against the committee that initially gave that approval. For the author, a former head of the International Group of P&I Clubs, to have overlooked this potential liability demonstrates it has not been properly thought through.

Finally, commercial underwriters insuring both hull and P&I have to be more discriminating than a P&I club's managers, as they face the ultimate penalty of dismissal following poor sets of underwriting figures.

Perversely, the report proposes that some form of financial incentive be introduced for P&I club managers who oversee profitable underwriting figures. This 'carrot and stick' approach without the 'stick' hardly encourages better underwriting: a club's managers would simply increase their remunerations in the years that they run the club profitably. A commonly overlooked fact is that the financial strengths of the commercial underwriters that offer both hull and P&I cover are greater than the combined reserves of the International Group of P&I Clubs. In addition, commercial underwriters are in a position to offer an insurance policy whereas a mutual can only offer an indemnity policy, a significant issue in light of impending proposals to make third party insurance mandatory.

In conclusion, although the report contains some valid points, such as the transparency of survey information to be made available to underwriters in order to assist with their risk profiling process, it fails to offer a comprehensive definition of a substandard ship operator.

Furthermore, the arguments about the benefits of mutuality actually point to the current structure of the International Group of P&I Clubs as the culprit by offering such enormous limits of cover to substandard and quality operators alike. Were the International Group Club Agreement and in particular the International Group reinsurance contract finally to be declared not only anti-competitive but also not in the best interests of safety and the environment for the reasons set out above, the individual clubs would be forced to undertake a different approach to their underwriting practices.

Substandard ship operators would be offered lower limits of cover, the underwriters would be further compelled to take a greater interest in the performance of operators or be made to face the penalty of increased reinsurance costs. As a result, the substandard operator would be forced to alter his trading patterns and to reduce his risk profile.

Furthermore, the underwriters (whether mutual or commercial) that practice a higher degree of risk selection/management would benefit from more attractive reinsurance costs, for the benefit of the quality ship operator.

The solution for the removal of insurance for substandard shipping is simple: the removal of the exemption given by the European Union regarding the International Group agreement and in particular the International Group reinsurance contract which is not only detrimental to healthy competition but also runs counter to safer ships and cleaner seas.

In closing, I must state the views expressed here are purely my own, gathered after over 30 years in marine insurance.

Jonathan Jones is head of JLJ Marine, Piraeus

atargas 2 consortium

Tsunamis are more common than we think

KILLER waves resulting from earthquakes are more common than many people recognise, a report has emphasised.

Tsunamis are a widespread phenomenon, with more than 1,100 recorded globally since 1900, said the report, from reinsurance broking company Guy Carpenter.

The study, entitled Tsunami: Indian Ocean Event and Investigation into Potential Global Risks, details the damage caused by the Sumatra earthquake and subsequent tsunami in Asia, and explores the global danger that such hazards pose.

Since the beginning of the last century, the Pacific Ocean alone faced 828 tsunamis — over 200% more than every other region combined. This was an average of nearly eight a year. The Atlantic Ocean, Indian Ocean and European seas each experienced about 60 to 65 events since 1900, or about 1.7 a year.

While the December 2004 tsunami was one of the worst natural disasters on record in terms of loss of life, the overall insured and reinsured losses are expected to be small, as most of the destruction occurred in areas that were largely uninsured.

According to the report, total insured losses are expected to range from $2.5bn to $4bn, and life and health costs may reach $1bn. Early forecasts indicate that reinsured losses will not be large.

Ryan Ogaard, global practice leader of Guy Carpenter's Instrat unit,