

# **The “Ship”**

A New Mode of Transport

A Primer for Marine Insurance

March 2020



**3<sup>rd</sup> March 2020 BC:** General Average was introduced.

# Background

To help us consider our current approach to marine insurance and to help prepare the way to underwrite in the 2020's I believe we should "imagine" the "ship" as an invention of "today"; rather than some 4000 years ago.

# History of Transport

- It is now nearly 200 years since the first train.
- It is 135 years since the first Motorised vehicle.
- Aircraft today carry large numbers of people and cargoes. The first passenger carrying “Jumbo 747 Jet” was a half century ago.
- The “Ship” will surely change the transport & logistic industry.  
Waterborne transport will become the “global” business!





# Global Approach

- A ship will travel the world and visit every country with a coastline.
- A ship may travel inland by river.
- How to insure a ship, react to accidents, to conduct repairs?
- What claims handling procedures will be required?
- Careful thought needs to be given to using technology to avoid creating cumbersome and expensive procedures.

# Lessons Learned

- Maybe we should consider and review procedures learnt from insuring Railways motor cars and the aviation industries?
- Maybe we can **refine** and improve on these procedures?
- In reviewing Aviation, Motor & Railway Insurance.
- Are the values and risks such, that we should only take modest shares ?
- Should we write a comprehensive policy?
- Or should we separate physical damage and liability insurance?
- If so, why and for what benefits?

# Underwriting Thoughts

- If we take shares should we syndicate the risk in the way banks do?
- If we do, should we charge fees for syndication if we act as leader?
- How are we going to [market our product?](#)
- How is this “shipping” business going to work? Guess we will have to learn about it?
- Will there be different types of ships?
- Who will check they are correctly built and maintained?



# Underwriting Thoughts

- In Aviation the FAA and CAA Government Agency monitor safety or with Motor Transport various Governments oversee and control quality/safety – [will the same approach be adopted?](#)
- Or maybe safety might be better overseen, if commercialised?
- What about the training of the crew?
- Who will issue certificates for crew?
- Will officers need to be retested for ship type as they are with planes?



**1954:** A very special year not only in HK

# Underwriting Thoughts

- Some ships will be controlled outside of the HK etc. – how will they pay premium?
- With HK\$ no exchange controls but with parity with the US\$.
- Or in Euros or Swiss Francs or RMB or multicurrency's?
- Or Bitcoin?
- With the latest banking security procedures and the use of blockchain money can be electronically transferred directly between bank accounts?
- Do we need to give credit – why?
- Or should we charge interest for deferred instalments?

# Underwriting

- Will we need a market place with all the costs of administration & additional regulation?
- As a global business does it matter where we are physically located?
- We could be in a Cloud?
- Insurance companies are very substantial financial concerns what other insurance /financial products could be offered to clients?
- The ship will carry goods (cargo). Will we insure the goods separately or give cover to the total venture?

# Underwriting

- **We will need a proposal form – what should be the questions on the form?**
- We know that 90% plus, of all accidents vehicles, aircraft, at home, or in the factory etc. are human error – so presume it will be the same with ships? Should we keep track of the drivers etc.?
- Should we **insist** on pre-medical and ongoing health checks? For example, the “captain” might be going deaf, or short sighted.

# The Torrey Canyon 1967



# Underwriting

- In industry 80% of accidents are due to **poor** management. The ship will be controlled by a company, so will we need to know who controls the company and what are their business ethics?
- If we do not meet the company, how will we be able to **differentiate** between the various companies?
- Will our shareholders expect us to meet the client when so much is at risk?



# Underwriting

- If the company is not in HK, how will we get to know the company and monitor it's progress?
- **KYC** how can we comply?
- Should we require details of the other business partners of the company Who are the financiers, their lawyers, etc?
- How will **Regulators** expect insurers to comply with compliance issues such as Sanctions?

## 1871: Sir John Henry Luscombe.

- Represented England in the very first international Rugby Union match.
- The Chairman of Lloyd's- five times.
- Knighted for his services to underwriting.
- He used to ride to Lloyd's on Horseback.
- Created JHL Syndicate 329.
- With a premium income in 1984 of US\$2m



# Claims

- A “ship” could be anywhere. How do we handle accidents and claims?
- Will we employ **AI** and **parametric** testing?
- What about satellite monitoring and the use of onboard Web cams?
- When the ship breaks down what will we do?
- Will we have our own break- down trucks?
- Or sub-contract outsource to special “rescue” companies?
- How do we control rescue operations, they will be **expensive** and how to reward ?

# Claims

- What if the Ship cannot be rescued?
- How do we monitor moral hazard /corruption– “its an insurance job”?
- Will we need our own technical people who are employed by ourselves, so we can monitor behaviour results and appoint approved third parties who we audit?
- Do we need to train specific claims staff who understand shipping?

# Claims

- Do we need to create our own legal department? (In reviewing “equitas”, 20-25% of all reserves are in respect of legal fees)
- How to monitor their performance?
- Legal actions are generally very adversarial and risk losing the client.
- In a casualty investigation how Lawyers & 3<sup>rd</sup> parties will be required?

Scenario - If a Ship were somehow to collide (even with today's technology) Could this mean that possibly 12 lawyers could be involved  
– What will be the costs incur?

# Claims

- **Control** over all aspects of underwriting and claims functions, as with all other forms of insurance is presumed to be of prime importance.
- Losing control to third parties, could prove financially **fatal**.
- Claims and how we service /pay claims are of **vital importance** to our brand recognition.

# Claims

- Do we appoint independent surveyors, who only work for ourselves, for other underwriters or the Assured can they work for All?
- How do we monitor them, both in terms of performance, efficiency and **conflicts** of interest?
- Claims adjusters - maybe the company of who owns the ship will have their own claims team or would they outsource?
- How and who pay them ?



# Claims

- **Presume** in an event of an accident, as with aircraft, all will assist the official accident reporting department, to ascertain cause of accident and to learn from mistakes?
- The crew will naturally make themselves available to the authorities.
- If a major accident, the country nearest to the accident will render full assistance in rescue.
- Guess as with aircraft we must adopt a common language to **communicate** in the event of an emergency.



## 1836: UK House of Lords Select Committee

### Conclusions:

- Poor level of training and experience among officers and crew in the merchant fleet;
- Poor design;
- Inadequate equipment;
- Incomplete repairs;
- Incorrect loading and overloading

# HR Selection

- Investing in soft skills gives Greater efficiency, resulting in Maximum Economy – and at the same time achieving greater Satisfaction for the individuals both ashore and onboard the vessel . How will insurers recognise and encourage this investment?
- The profit motive of an industrial undertaking and the proper development of individuals, in the past was considered to be poles apart. We now recognise this not to be true.
- A bad decision will result in a tremendous waste of money, time and energy expended, with negative brand impact for all concerned.
- Prevention is better than cure.

# The Market of Today

- 13 P&I clubs members of the International Group of P&I Clubs control 90% of the worlds fleet tonnage are mutual clubs with the ability to charge supplementary premium (calls) and if the Owner (Member) wants to move Clubs he must pay the existing Club a Release Premium (call) and not move insurers for less money.
- P&I Insurance is subject to the “Pay to be Paid Clause” (Rule) and Financiers are not safely able to enjoy notices of assignment and loss payable clauses.
- Are these aspects relevant today

## Notable Milestones

**1686 AD: Lloyd's Coffee House opened.**

**1764: Lloyds Register** created to give both underwriters and merchants an idea of the condition of the vessel.

**1774: the Society of Lloyd's** was officially created.



# The Market of 2019

- Following initiatives in the late 1990's the so-called **fixed** P&I movement has developed and grown with numerous Managers of the International Group and other insurers offering alternative insurance products. This now equals some **50%** in the number of vessels. Though the IG Clubs control 90% of tonnage .
- A number of Managers of The IG P&I Clubs have diversified and offer Hull & Machinery, Construction , legal and War Insurances.
- Some have purchased average adjusters , engineering forensic groups, created maritime law firms.

# The Market of 2019

- Globally Some 200 insurers underwrite marine hull insurance compared with the 13 P&I Clubs.
- The historical and notable Lloyd's and London Insurance market has dramatically shrunk from 80% of the Worlds business to some 12%.
- The Scandinavian Market is now the dominant marine market evolving since 1984, when the Scandinavian Market Agreement was signed.
- The Chinese market has grown to some 10% and is expanding.
- One Member of the IGA HQ is based in Asia.



# The Market of 2019

- Greece is the Worlds Number 1 Shipping nation, the rest of the top 5 are in Asia – Japan, China & HK, & Singapore.
- Greece controls 51% of the European fleet.
- The Worlds largest Ports are in Asia.
- The leading Shipbuilding nations are in Asia.
- What impact will this have on marine insurance?

# Market 2019: Service providers

- 3 Global major insurance brokers
- **Commodity** or Service Providers
- Numerous medium and small concerns
- Lloyd's broker status no longer **select**.
- Different regulatory **controls** exist between UK , Germany , Singapore how to understand?
- Maritime Law firms still dominated by London but fragmenting and merging
- Average Adjusters are nearly **extinct**
- Salvage Providers under pressure

1907: Gard initially insured only sailing ships.



# Facts & Figures

- 95,402 of Ocean - Going Vessels.
- 3500 shipping companies control 70% of worlds fleet
- Fleet value of US\$910,885,000,000
- Total 1,976,491,000 DWT.  
= US\$9,547860 Average Vessel Value
- Annual Marine Hull premium gross according to IUMI US\$7billion gross (Average commission 25%)

**Source: UNCTAD** Review of Maritime Transport 2018  
issued November 2019. And IUMI

# Facts & Figures

- Average rate 0.76% gross
- Average premium per vessel = US\$73,375 per vessel gross before brokerage
- Average \$3pdwt XTL plus world TL rate of 0.1%
- Negative technical results last 20 years excluding IBNR
- IG Premium US\$3.7 billion gross (Average commission 10%)
- Negative results excluding Investment Income and IBNR

**Source: UNCTAD** Review of Maritime Transport 2018  
issued November 2019. And IUMI

# Facts & Figures

More than 70 per cent of the world fleet (tonnage) is registered under a foreign flag. In a minority of countries (10 out of the leading 35 ship-owning countries), however, the number of vessels flying under the national flag represent more than half of their fleet.

These are as follows: the Islamic Republic of Iran (98%) Indonesia (93%) Viet Nam (81%), Thailand (73 %), **Hong Kong, China (72 %)**, Saudi Arabia (72 %), Malaysia (72%), India (66%), Italy (61 %) and Singapore (56 %).

# Facts & Figures

- The top 5 fleets in size, 4 have their own war facility.
- Global Annual War @ 0.001% gross income before commission NCB,  
Profit Commissions = **approximately US\$90m gross US\$45m net.**  
(Average commission 50%)
- Only Greece does not have an Approved domestic insurance market.

# Facts & Figures

- In terms of the commercial value of the fleet, the top 5 vessels types in value Bulk, Tankers, Cruise/Passenger, Containers, Gas respectively, account for 70% of the World fleet value.
  - 5 container operators control 50%
  - 10 container operators control 90%
  - 5000 major container vessels (5%of fleet)
- Cruise/Passenger vessels values = US\$108,472,000,000 (11.9% of fleet value and 1860 vessels,1.95% by number)
- US\$58m Average Cruise/Passenger vessel value



# Thoughts 2020 +

- “Disruptions to maritime transport operations networks show need for resilience-building.
- 2020 underscores the growing importance of building resilience in supply chains, including maritime transport.
- Shocks resulting in disruptions eg: delays, congestion or closure of waterways and ports, cause inefficiencies and increase the costs of logistics and trade.

# Thoughts +

- **Climate change** causes extreme weather events, e.g. droughts, floods and changes in sea levels, damages and undermines shipping and port operations disrupting the supply chain.
- Bangladesh Port closed for 72 hours due to a tropical cyclone, causing a backlog of containers at the port and at support inland facilities.
- Drought in Panama, required the authorities to impose draft restrictions on ships passing through the Canal.
- The Rhine and other inland waterways in Europe experienced the same restrictions.

# March 2020 relevance +

- Insurance, strengthens resilience and fosters environmental sustainability which helps boost economic growth and supports trade.
- A coordinated and multilateral approach to resilience building, including by addressing the risks of natural disasters and the impacts of climate change, especially in coastal areas and delta regions.
- Geopolitical flash points have major implications for maritime trade and shipping.
- 33% of global oil transits the Strait of Hormoz.
- 30% global LNG transits through the Strait annually.

# Thoughts for 2020

*“Flag States have an important role to play in enforcing shipping because they exercise regulatory control over the world fleet on issues such as ensuring safety of life at sea, protection of the marine environment, and the provision of decent working and living conditions for seafarers”. UNCTAD rmt 2019.”*

- There are **152 Flag States** who mostly delegate technical issues to RO (Responsible Organizations).who are mostly Classification Societies. Each with their own rules & regulations.
- There are **132 Classification Societies** but the 12 Members of IACS control 90% of the Fleet. Each with their own regulations

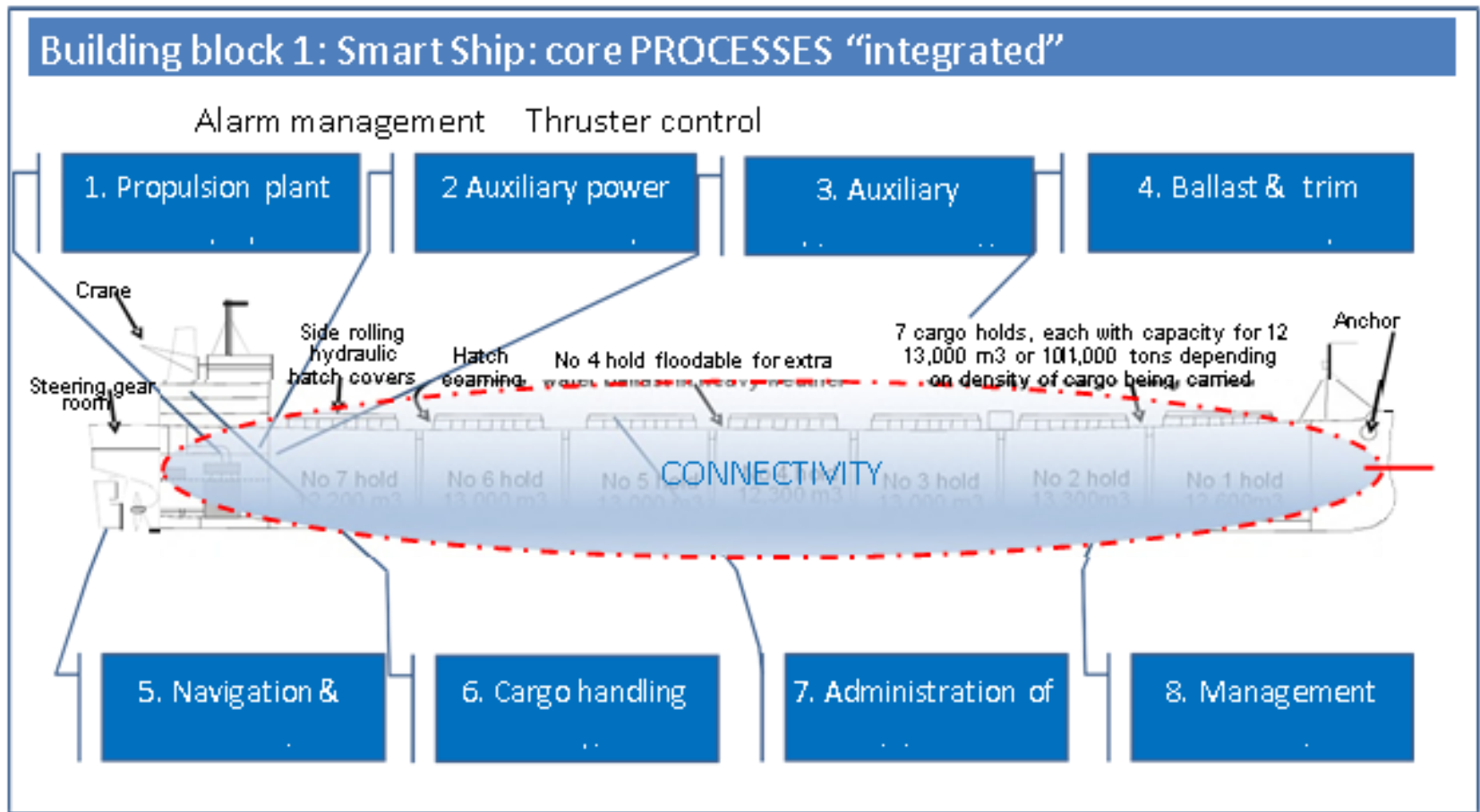
# Tomorrow's ??

- Why is Insurance in the **top10 OPEX** costs ?
- Who will **adopt change** and who will fight Resistance to Change?
- Will change be embraced uniformly across the industry?
- How many Insurers are required?
- How many brokers are required ?
- What will be their role?
- How will they be remunerated?
- Langada V Kardamyla. Sail V Steam  
(2 villages in Chios Greece one adopted change and one did not!

# Tomorrow

- Smart Shipping = Smarter people
- Interconnectivity = Transformation & Revolution
- Creating Team work between Office & Ship
- Role of the Master – Criminality & Port of Refuge a thing of the past.
- AI augments and enables Proactive and positive Risk Management for the benefit of insurers and the ship.
- Cargo Insurance no longer a separate class.
- GA 2030 a thing of the past.

# Interconnectivity



# The English Insurance Act – A brave new World

- The English Insurance Act in exchange for the removal of the absolute Warranty will require greater disclosure.
- Who in the Ship-owners office will take responsibility – the DPA?

## Disclosure:

- ISM **Non-conformities** and the actions taken to ensure the non-conformity are not repeated ?
- Flag State & Classification Societies **irregularities /deficiencies** to be disclosed reported ?



# The English Insurance Act – A brave new World

## Disclosure:

- Underwriters **will need** questionnaires and underwriting guidelines to demonstrate **professional and consistent** approach. Owners & Brokers should ask for sight of these.
- The 20+ years of a soft market & “**price is king**” won’t go down well in the courts.
- The role of wholesale and retail brokers and who tells what and how to ensure underwriter is properly informed by the 3<sup>rd</sup> party broker?
- It is indeed a **brave new world**.

# Smart

A final thought on how to win

- “In Formula 1, if you’re not innovating you’re going backwards. McLaren Racing produces an upgrade to its Formula 1 car every 17 minutes. We operate in the most demanding racing series in the world, *where a fraction of a second can make the difference between winning and losing; between glory and failure.*”
- “We strive to do things better and lead by example right across the Group, understanding that even the smallest, most seemingly insignificant details matter. *We do everything for a reason.*”
- “Before we embark on any activity, we must know why we are doing it and then be able to measure its impact and evaluate its success. If we can’t measure something, we don’t know if we have improved. *Data equals knowledge, and with knowledge, we can win.*”

# Smart

- Ships may not be as fast as Formula 1 cars, but they are much bigger, more complex and the principles are the same. Every word in the above quote could apply to a shipping team, whether it is operating VLCCs or containerships. Note in particular the emphasis they place on “right across the group”.

- See the website for more details

<http://www.mclaren.com/technologygroup/about/approach/>

# Yesterday Today Tomorrow

Thank you for listening I will finish with this thought:

Marine Insurance

Is it

*Hysterically Historical or Historically Hysterical?*

With thanks to Dr Stopford of Clarkson's

Research .