5th INTERNATIONAL MARINE CLAIMS CONFERENCE

What risks dominate the shipping industry from a P&I perspective?

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What risks dominate the shipping industry from a P&I perspective?

- background to P&I and Club system
- economic factors
- credit crunch effect on club
- crewing
- piracy and detention by rogue states

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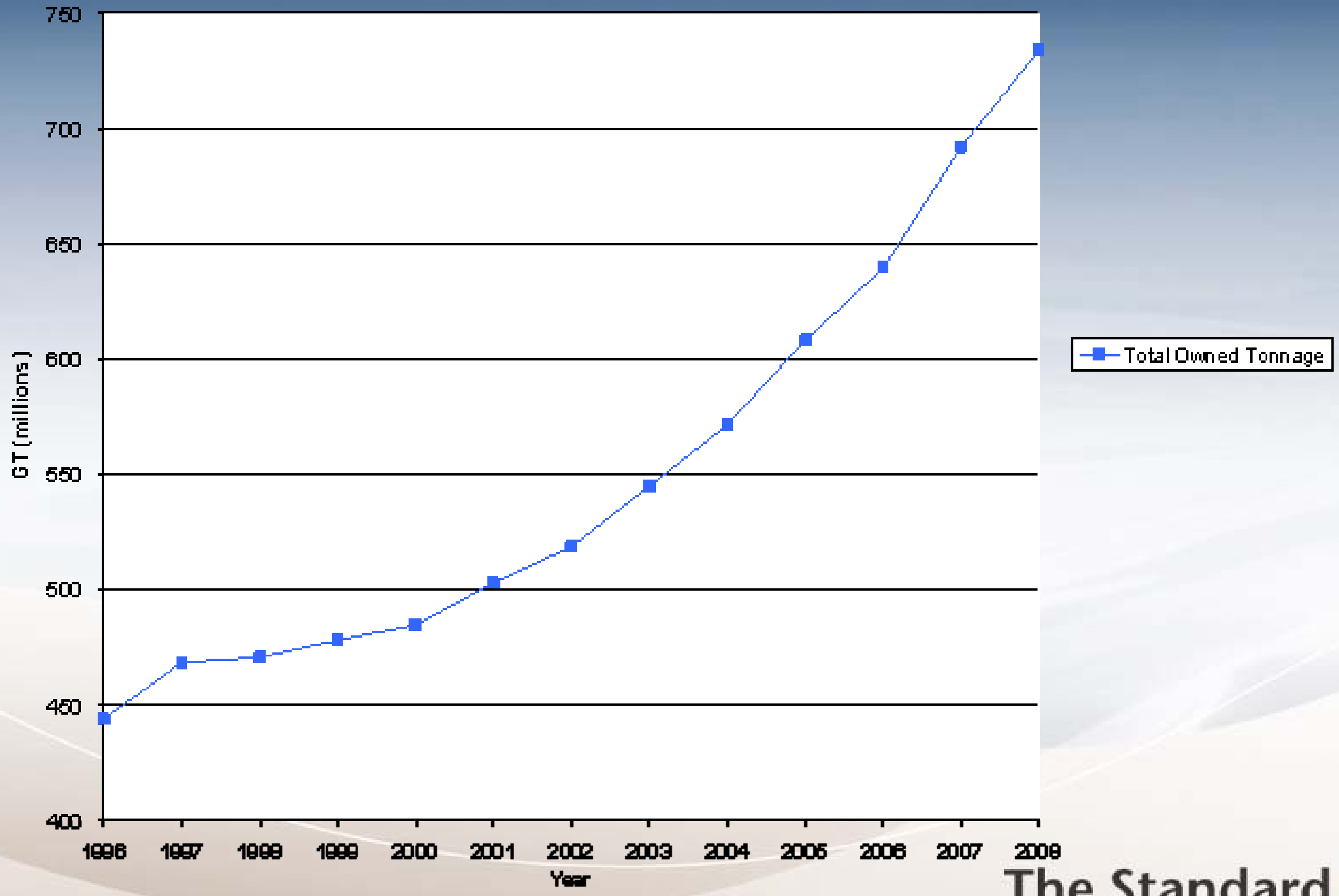
P&I insurance

- mutuality
- wide range of cover
- working in partnership with ship owners

Economic factors

- trade volumes
- freight markets
- commodity prices

International Group owned tonnage



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Freight markets

- big increase in tonnage
- more trading
- all units utilised
- marginal units and facilities

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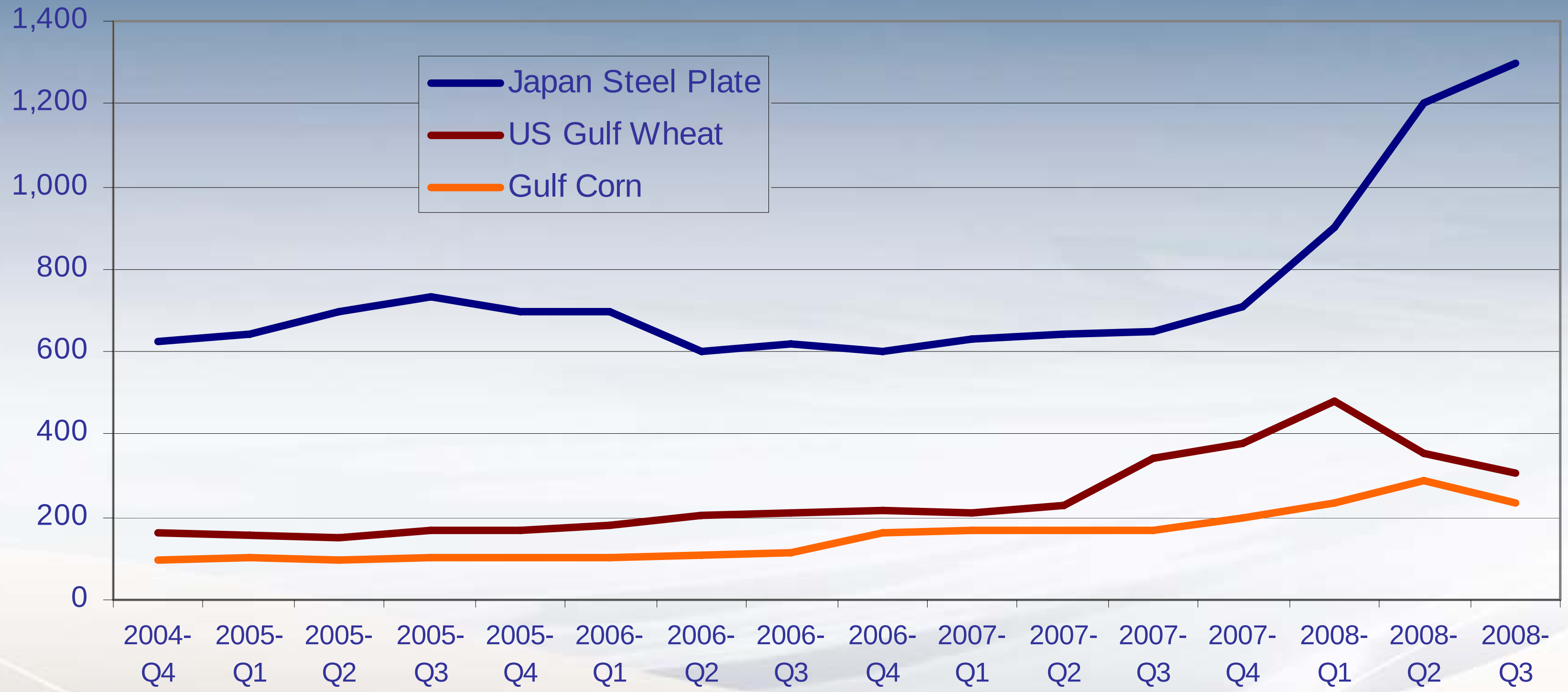
Commodity prices

- cargo claims
- damage to docks/ FFO
- collision claims

Commodity prices
($/tonne)



Source: Clarkson Research Services Limited 2008

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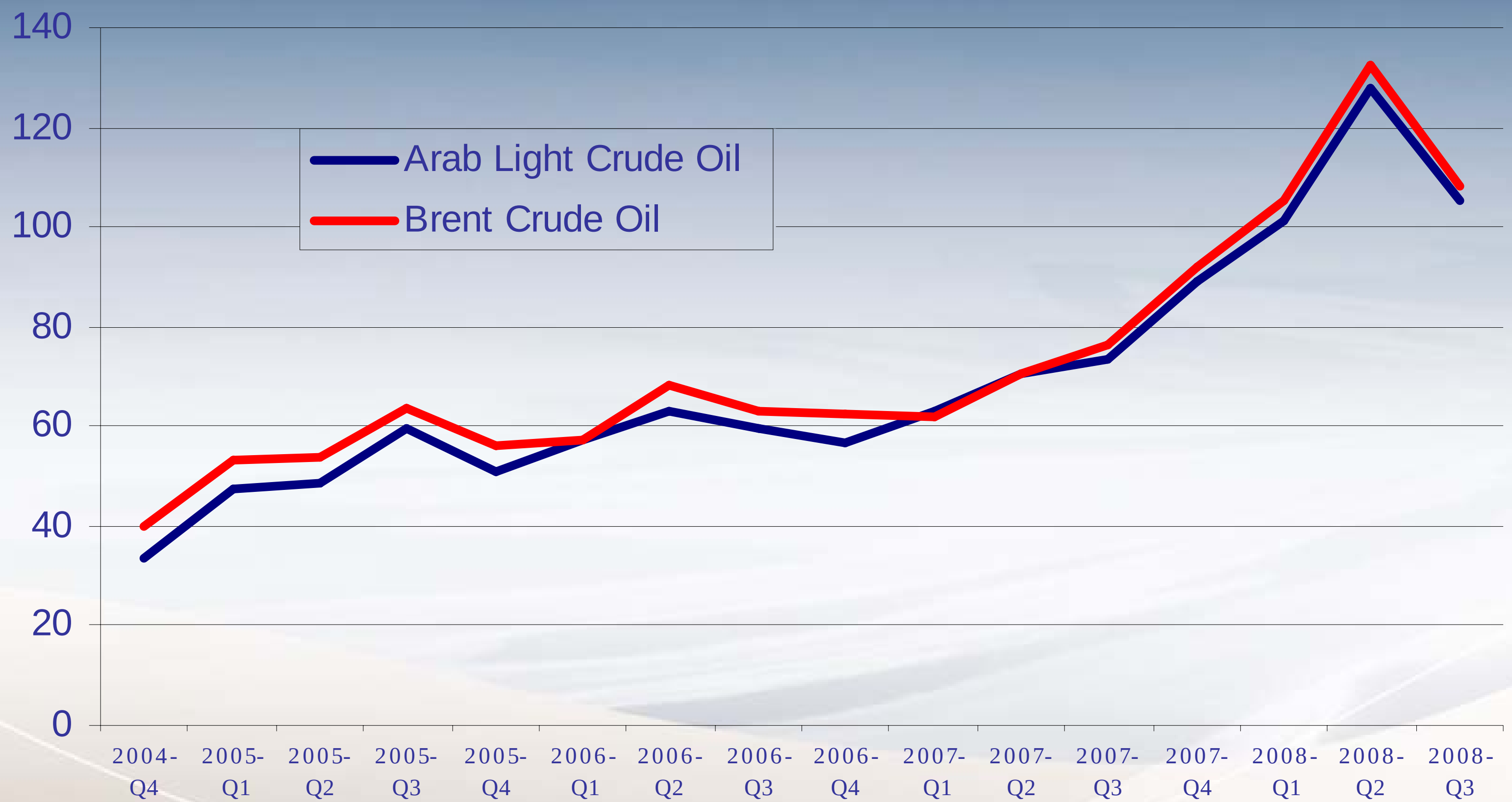
Commodity prices
($/bbl)



Source: Clarkson Research Services Limited 2008

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Freight markets – defence class

- off-hire disputes
- late redelivery disputes
- demurrage disputes
- disputes with yards

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Ship building disputes

- before the keel has even been laid
- quality of new builds as yards try to cut corners
- ship owners - if they run into financial difficulties or no longer require the extra tonnage
- credit crunch - banks withdrawing finances from ship building agreements
- on the way up and the way down!

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World markets

- credit crunch
- impact of the global slow down

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Economic factors

Morten Arntzen on the financial turmoil:

"Anybody who thinks it's good for the world economy or for shipping is absolutely crazy……shipping doesn't exist in a vacuum."

What about a down-turn?

- old ships sold or laid up
- new ones left
- premium levels depressed

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Investment conditions

- most clubs have relied on investment income
- entirely appropriate in a mutual
- balance the books
- but always volatile and currently chaotic!

Club effects

- complex and conflicting factors
- underwriting still at a loss
- investment markets in turmoil
- but trading and values down?
- will claims cycle comes to the underwriters' rescue?

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The crew risk

- higher cost of crew illness and injury claims
- difficulty of finding and keeping good officers
- effect on navigational and ship management claims

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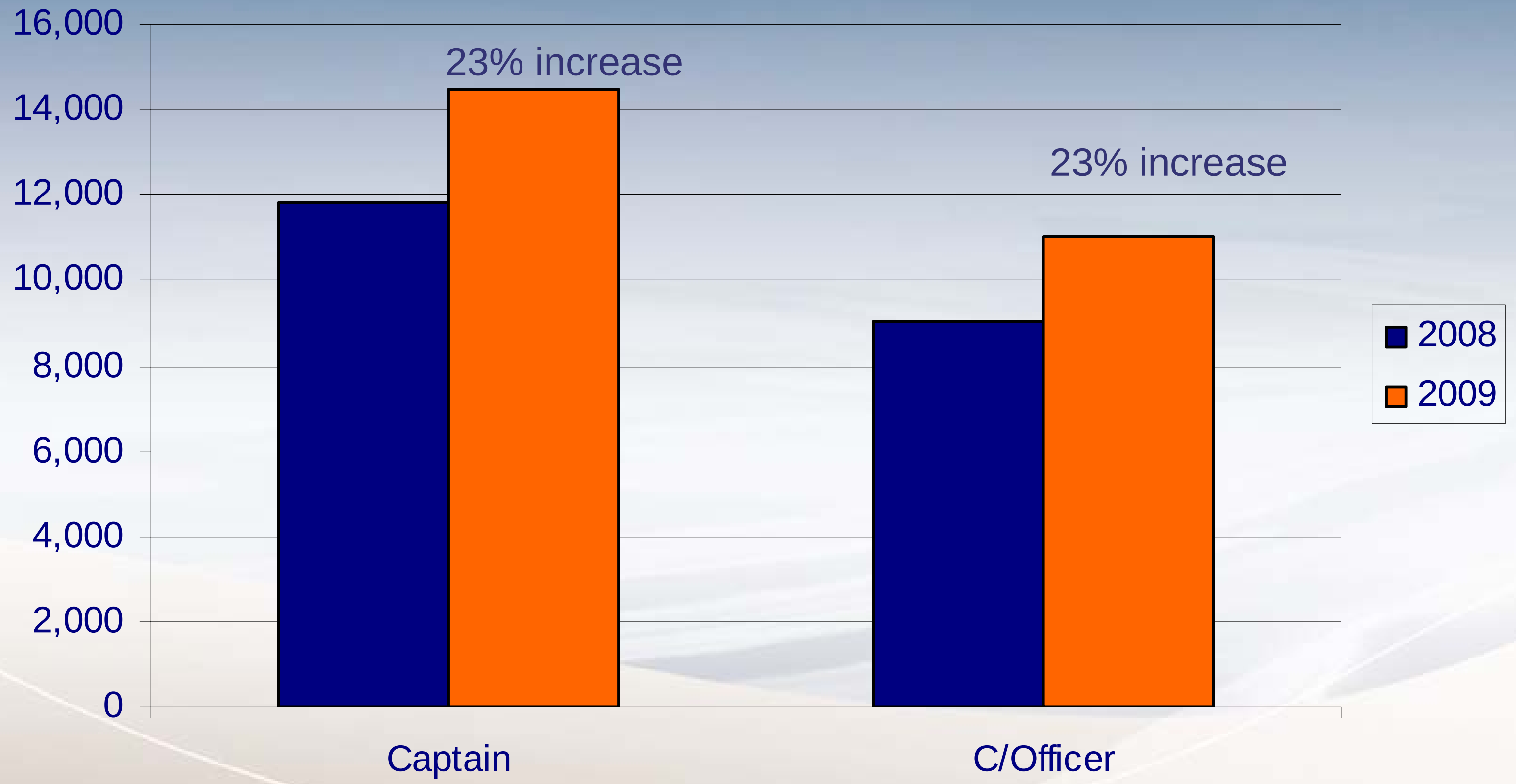
Wages

Bulk carriers - Indian / Baltic/ Russian



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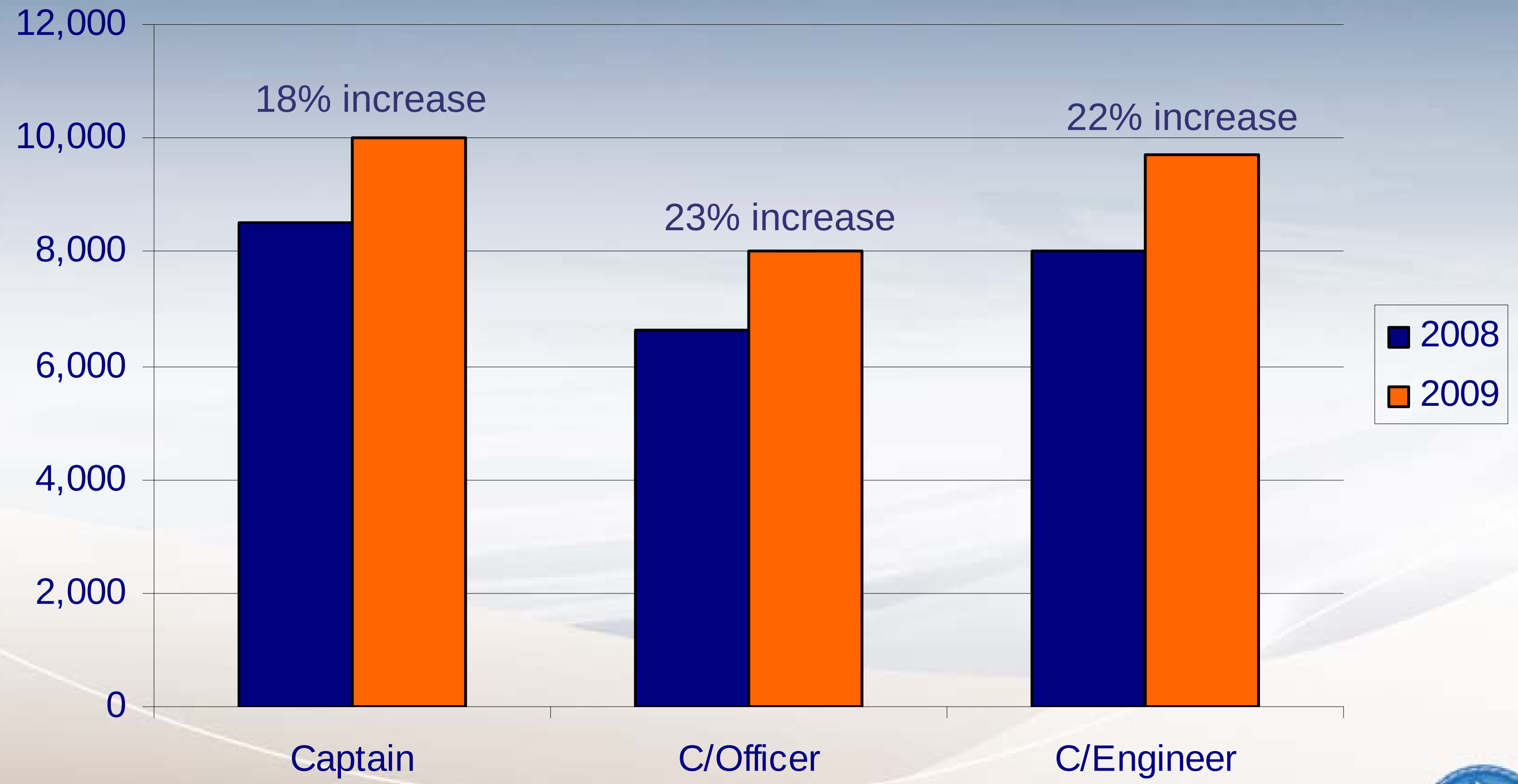
Wages

Gas / Chemical - Filipino officers



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International Maritime Organization in 2006

"The challenge for managers ashore and afloat, is to minimize these unsafe acts and to instill not only the skills but also the attitudes necessary to ensure that safety objectives are met. The aim should be to inspire seafarers towards firm and effective self-regulation and to encourage personal ownership of established best practice. Internationally recognized safety principles and the safeguards of best industry practice have to become an integral part of an individual's own personal standards."

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Piracy and P&I cover

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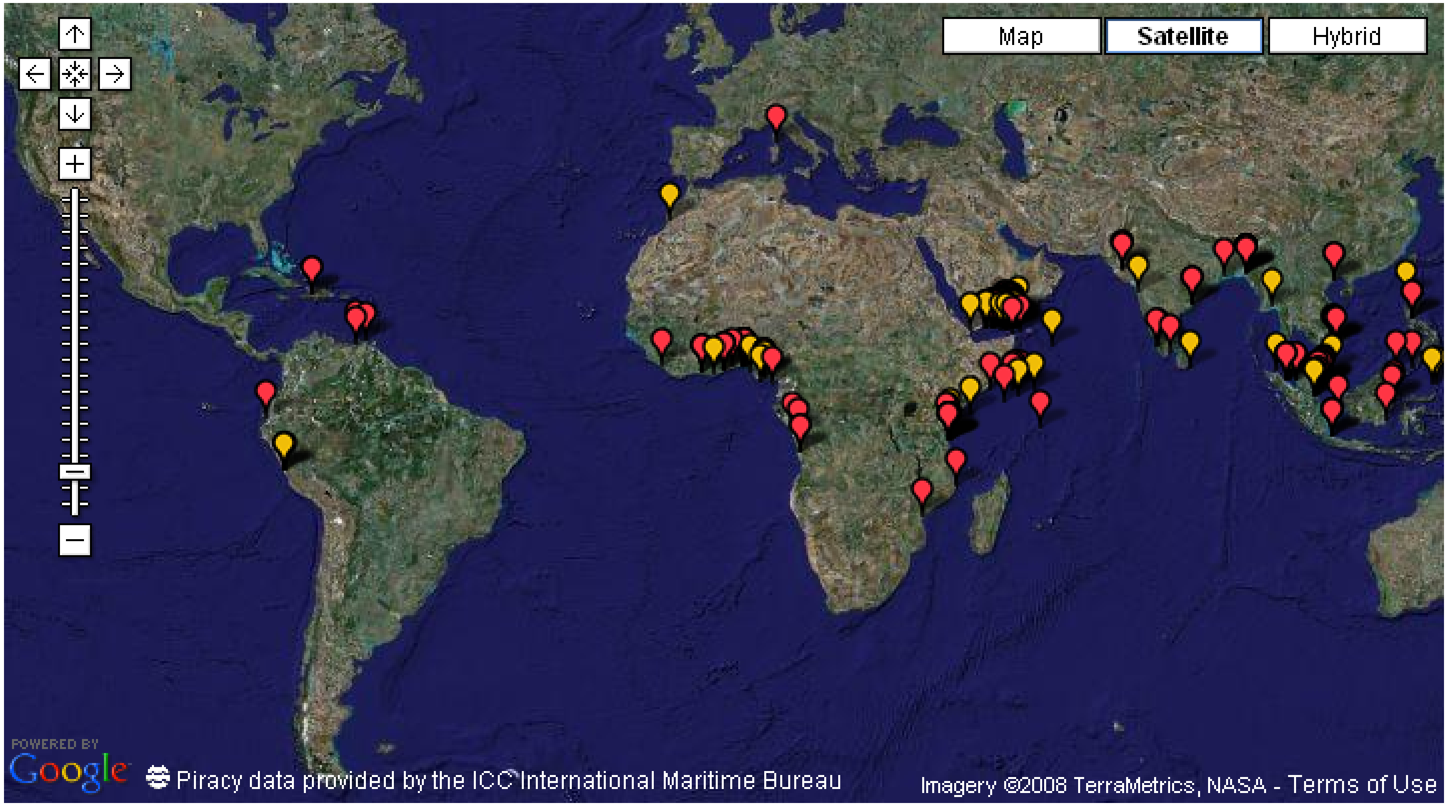
IMB live piracy map 2008

Piracy attacks 2007 Piracy attacks 2006 Piracy attacks 2005



High Risk Areas 2008

Comparative Index

Notes

Key: = actual attack = attempted attack

1. All positions are as received by the IMB Piracy Reporting Centre. If exact coordinates are not provided, estimated positions are shown based on information provided . This is particularly relevant to attacks within port limits.
2. Please zoom-in to high risk areas to see individual attacks. In the zoom-out mode, the pointers may appear superimposed on each other because of the close proximity of the attacks.
3. Click on each marker to see brief details about the corresponding attack.

Piracy

"An act of boarding or attempting to board any ship with the apparent intent to commit theft or any other crime and with the apparent intent or capability to use force in the furtherance of that act"

ICC IMB definition

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Club cover

- an act of piracy that leads to a claim under the rules = covered
- piracy is a marine risk
- piracy is not a war risk
- barratry enjoys the same status as piracy

Piracy and terrorism – the difference

- political motivation
    - may also involve demand for money but for a political end

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Maritime terrorism is not new

- 1985 *Achille Lauro*
- 1999 Alondra Rainbow
- 2000 U.S.S. *Cole*
- 2001 *Val de Loire*
- 2002 *M/V Limburg*
- 2004 SuperFerry 14
- 2006 Oil barge in Nigeria
- 2007 *Danica White*

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Terrorism and club cover poolable risks

- war risk
- club cover excess of underlying H&M War Risk + P&I inclusion
- hull must be insured for proper value
- limit $500,000,000

Terrorism and club cover non poolable risks

- war risk
- club cover excess of underlying H&M War Risk + P&I inclusion
- hull must be insured for proper value
- limit $150,000,000 (higher on terms)

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Ground up P&I War Risks?

- Charterers war risks
  - no underlying H&M or H&MWR cover
- Offshore war risks
  - new build FPSO – value may exceed $1bn
  - traditional H&M might view as energy risk
  - energy market WR cover does not have P&I inclusion

Kidnap & ransom

- not P&I
  - International Group Clubs voted not to include ransom as a covered risk
- ransom
  - could be argued that is a sue and labour of a crew contract benefit
  - cost of securing release of crew?
  - Board discretion?

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Outlook

- International Group review
- still no IG appetite for including K&R
- piracy and acts of terrorism not set to decline

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