



Current challenges for an owner
A view from a shipping company risk manager
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IMCC 2016 - Dublin, 29 September 2016

2 Managing the Risk

”One of the tests of leadership is the ability to recognize a problem before it becomes an emergency”

Arnold H. Glasgow (American businessman and humourist)



QUESTION 1

Do you agree?

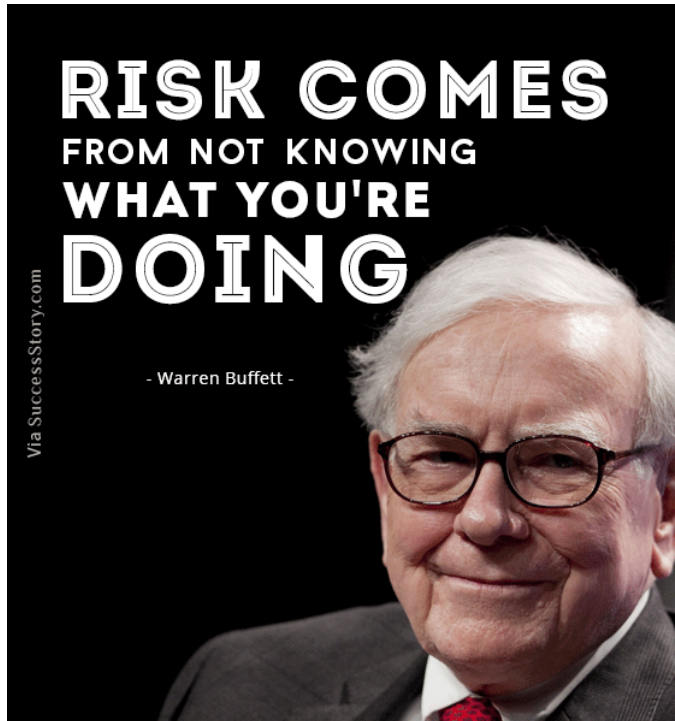
1 – YES

2 – NO

3 Managing the Risk



"I think we need to take another look at your risk-management strategy."



"I'm afraid you're not working out as our risk manager."

4 Scorpio - Established Global Organization



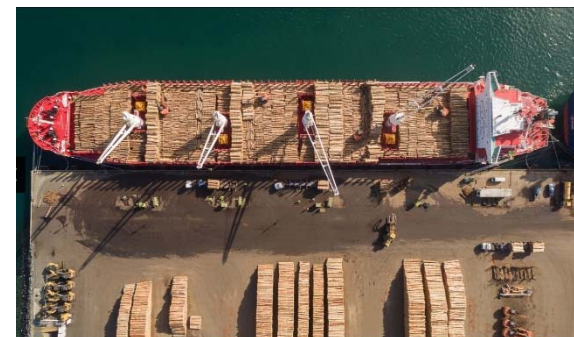
5 Scorpio Tankers Inc. (STNG) Overview

- Scorpio Tankers Inc. (“STNG”) is the world’s largest product tanker company.
 - It currently has 76 product tankers on the water with an average age of 1.6 years, and 13 product tankers time chartered-in
 - 11 Newbuildings to be delivered: three LR2’s in 2016 and eight MR’s in 2017; by Q4-17 the Company will own a fleet of 87 eco-design product tankers
 - Vessels employed in well-established Scorpio Pools
- NYSE-compliant governance and transparency.
- The Company is headquartered in Monaco, incorporated in the Marshall Islands.
- Fleet is composed of 100% first class Korean built tonnage.



6 Scorpio Bulkers Inc. (SALT) Overview

- Scorpio Bulkers Inc. (“SALT”) is a Marshall Islands corporation, founded in March 2013 by the Group.
- Company currently owns 48 dry bulk vessels
 - 20 Ultramax and 14 Kamsarmax delivered to date
 - 8 Ultramax and 6 Kamsarmax delivering between 2Q-2016 and 2Q-2017
- NYSE-compliant governance and transparency.
- The Company is headquartered in Monaco, incorporated in the Marshall Islands.



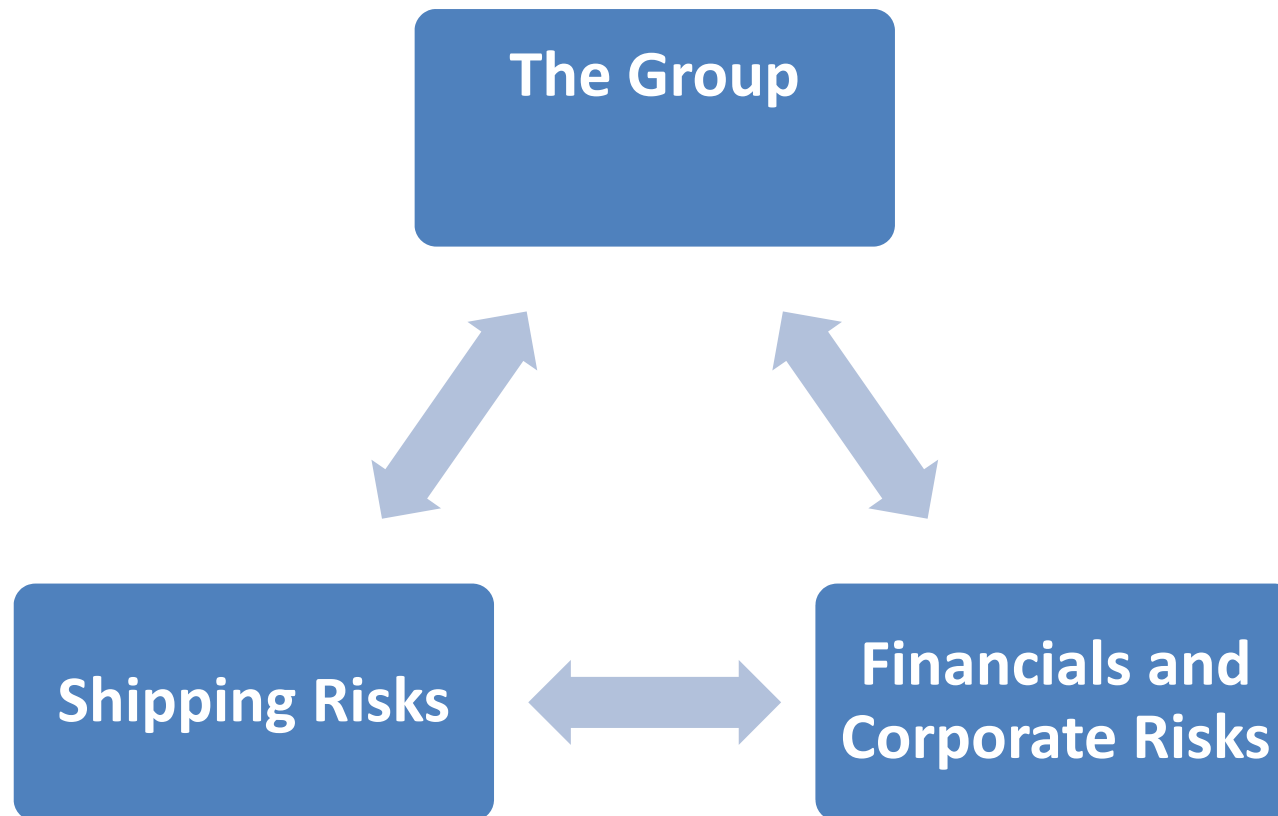
7 Insurance Department @ Scorpio – The Role

- To provide appropriate **placement and management** of the Group's Insurances with selection and evaluation of Underwriters, including the various risks associated with the ownership, management and operation of vessels.
- To monitor Scorpio Group's risk exposure. In co-ordination with Technical Managers and Scorpio Management, Commercial, Technical, Claims, Legal and Operations departments. A **risk assessment** is performed in order to identify risks that may be addressed by the placement of insurance.
- To design, develop and ensure compliance of Scorpio Group Insurance **procedures & processes**.
- To explore initiatives in **Loss prevention**.
- To provide Scorpio Group's claims' **statistics and claims trend's** studies.
- **Handling of marine and non-marine claims.**
- Team of 10 dedicated professionals with different background (operational, underwriting, claims handling, legal, etc.) around the Globe including in-house shipping lawyers.

8 Current Challenges as Risk Manager of Shipping Company

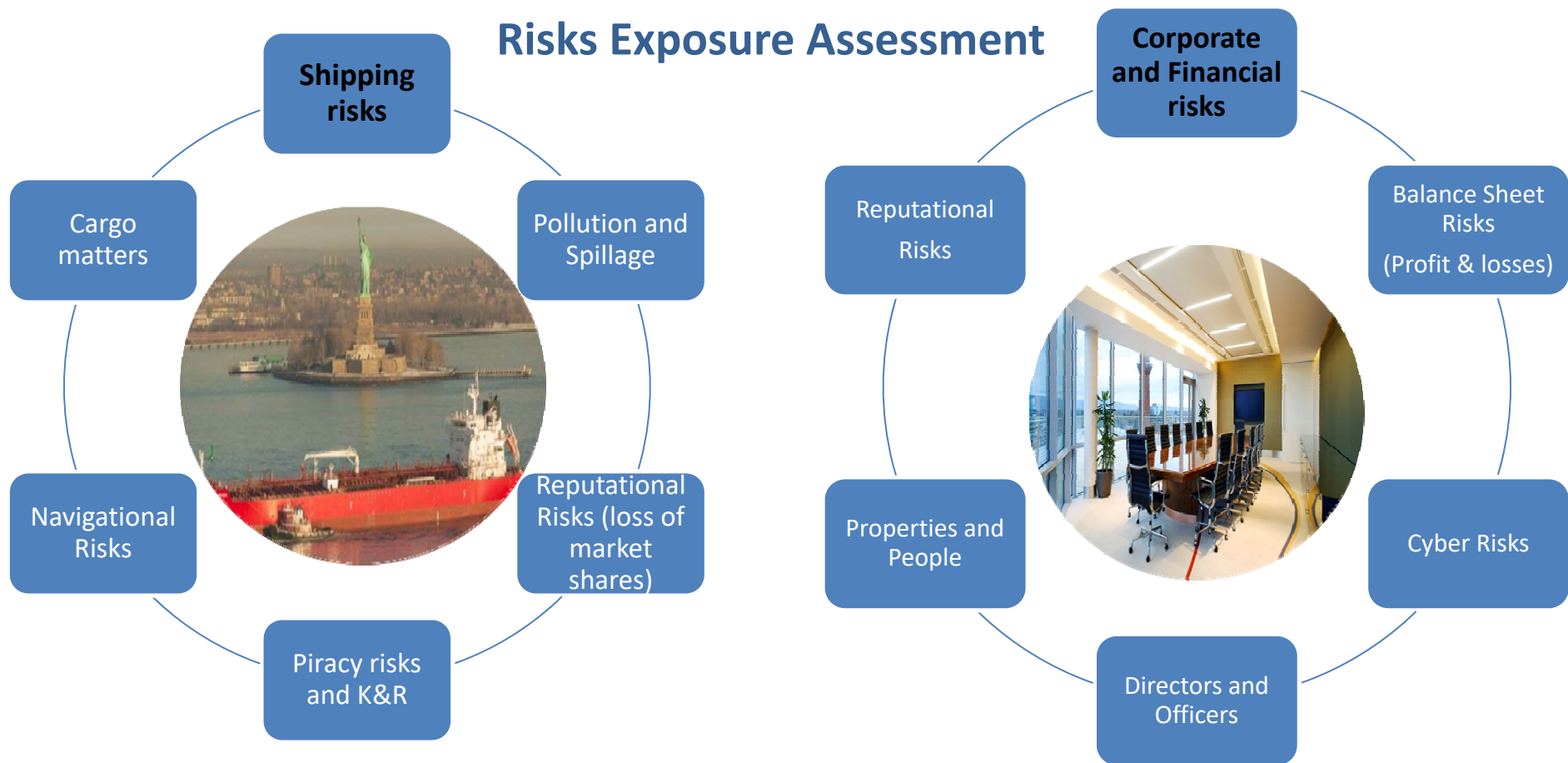
Risks Exposure Analysis – What Risks Can Occur

Insurances Risks Exposure Assessment



9 Current Challenges as Risk Manager of Shipping Company

Risks Exposure Analysis – What Risks Can Occur



10 Current Challenges as Risk Manager of Shipping Company

Risk perception of a Shipping Company - Risk Matrix

| | | | | | | |
|---------------|-------------------|------|----------|----------|--------|----------------|
| Impact | extreme | | | | | |
| | very high | | | | | |
| | medium | | | | | |
| | low | | | | | |
| | negligible | | | | | |
| | | rare | unlikely | moderate | likely | Almost certain |
| | Likelihood | | | | | |

Each Shipping Company has its own risk perception which is reflected by its risk transfer and minimization policy

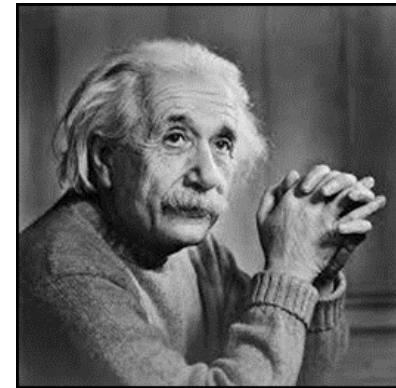


11 What is your perception?

QUESTION 2

What is the highest risk which can seriously impact a Shipping Company in today's market?

- 1 - Hull Damages
- 2 - Third Party Liabilities
- 3 - Cyber Risks
- 4 - Crew and pax safety
- 5 - Pollution
- 6 - Reputational Risks
- 7 - Insolvency of key suppliers
- 8 - Loss of charter hire
- 9 - Other



“The difference between stupidity and genius is that genius has its limits”

Albert Einstein

12 What is your perception?

QUESTION 3

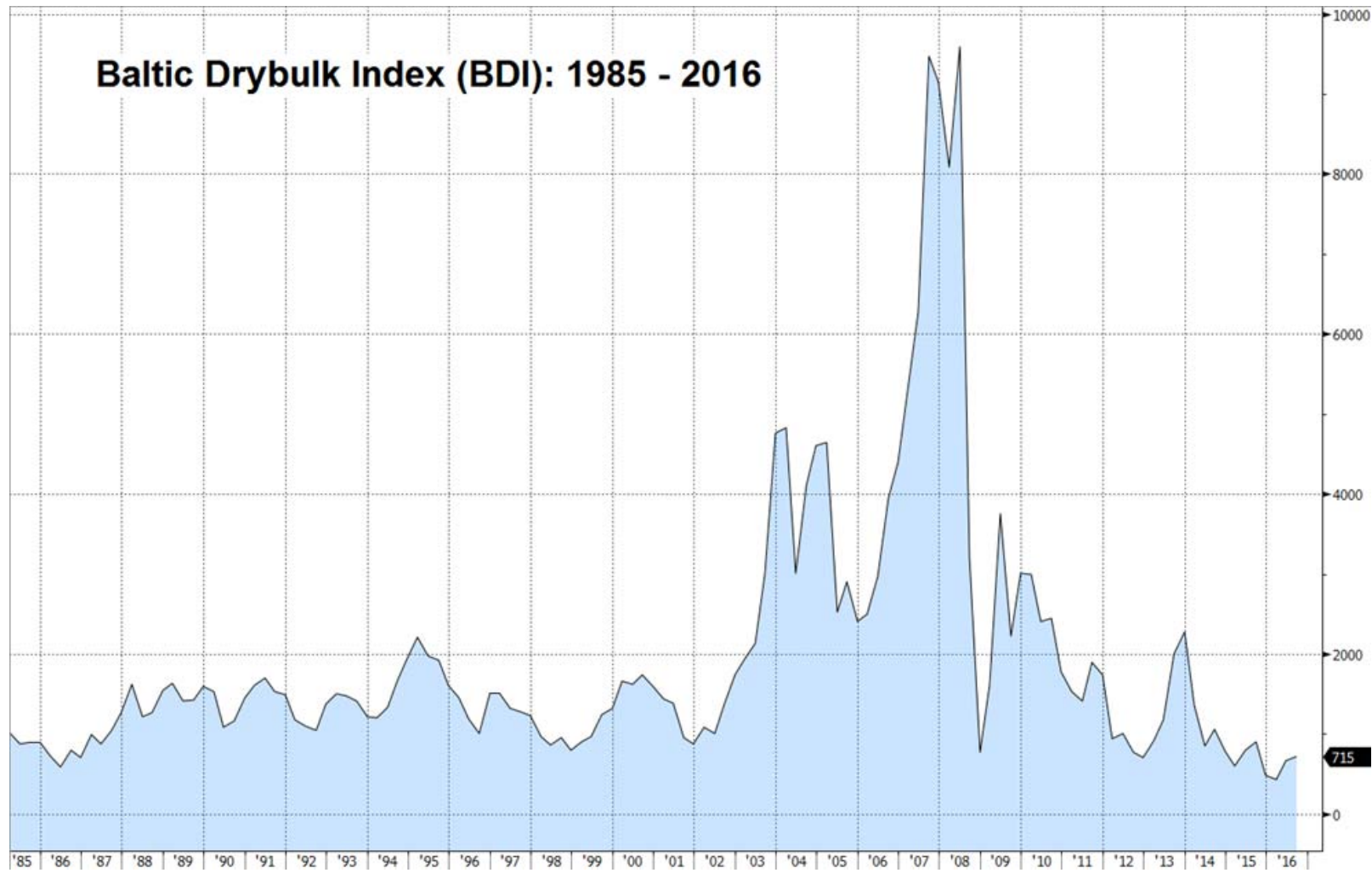
Is Insurance always the best solution to transfer or minimize a risk?

1 - YES

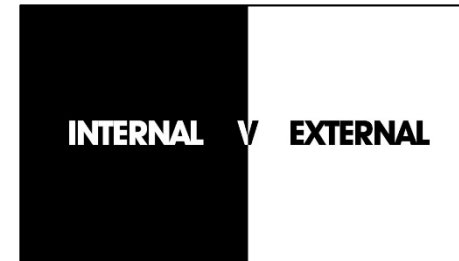
2 - NO



13 Current Challenges as Risk Manager of Shipping Company



14 Current Challenges as Risk Manager of Shipping Company



16 Current Challenges as Risk Manager of Shipping Company

HANDLING A MAJOR CLAIM: PRACTICAL EXAMPLE



1 500 email messages exchanged in 12 months !

Numerous conference calls , internal and external meetings



Internal stakeholders involved

- Top Management
- Insurance department
- Legal department
- Operations department
- Technical department
- Chartering department
- Accounting department
- Finance department
- Crewing department



Various Locations:

Monaco, Mumbai, New York, Athens, Istanbul, London



External stakeholders involved

- P&I Club
- H&M interests
- Brokers
- Salvors
- Lawyers
- Surveyors, agents, correspondents, etc.



Again various Locations and different backgrounds, roles and expectations of each one

17 Current Challenges as Risk Manager of Shipping Company

The global financial markets instability and the increase of regulations (Solvency II directive) are leading to intense **M&A** activity



18 Current Challenges as Risk Manager of Shipping Company

M&A: Some examples about Marine Insurers, P&I and Brokers

| Insurers |
|--------------------------|
| XL/Catlin |
| Endurance/ Montpelier |
| Tokio Marine/Kiln |
| Ace/Chubb |
| Amlin/Mitsui Sumitomo |

| Brokers |
|---|
| Willis / Towers Watson |
| Hyperion Group (Howden, Dual) / RKH Group |
| Lockton / PL Ferrari |
| SIACI / Cap Marine |

| P&I Clubs |
|--|
| Britannia/UK P&I Club (FAILED Deal) |

February 2016: The boards of the Britannia and the United Kingdom Mutual Steam Ship were in merger discussions. The Clubs are leaders in their field and strong supporters of mutuality.
 June 2016: no agreement could be reached on acceptable terms and the discussions have been terminated.



19 Current Challenges as Risk Manager of Shipping Company

QUESTION 4



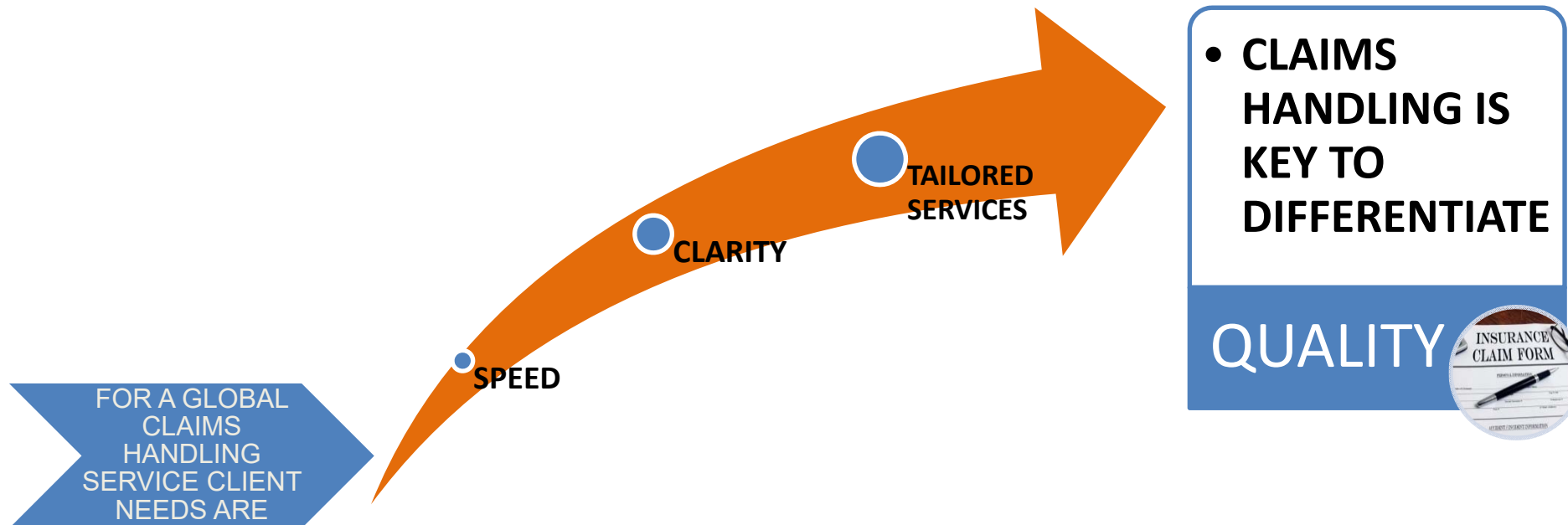
Is all this M&A activity beneficial to clients ?

1 – Yes

2 – No



20 How to differentiate?



21 How to differentiate?

SPEED

ON COMMUNICATION



ON CLAIMS HANDLING

Example: BANK GUARANTEE



 **NOT ONLY...**



INSURANCE INDUSTRY vs SHIPPING INDUSTRY

SOMETIMES THERE IS A LACK OF SPEED FROM INSURANCE INDUSTRY TO ADAPT AND TAILOR COVERS IN LINE WITH CONTINUOUS CHANGES WITHIN SHIPPING INDUSTRY

22 How to differentiate?

● CLARITY

COMMUNICATION

- TO BE FAST, OPEN AND CLEAR
- CLARITY ON APPOINTMENTS AND ROLES
- MANY STAKEHOLDERS INVOLVED:
UNDERWRITER, CLAIMS HANDLER, BROKER,
ADJUSTER, SURVEYOR, RISK MANAGER,
LAWYER, ETC.
- CLEAR UNDERSTANDING ON WHO'S DOING
WHAT (WHO'S INTERESTS THE STAKEHOLDER
IS REPRESENTING AND PROTECTING)



● TAILORED SERVICES

- EACH CLIENT IS DIFFERENT
AND HAS DIFFERENT NEEDS
- AN EFFECTIVE CLAIMS
HANDLING CANNOT BE A
STANDARDISED MATTER
- NEED OF FLEXIBILITY



23 How to differentiate?

QUESTION 5

Have you held a meeting with a Shipowner or Risk Manager in the last 6 months ?

1 – Yes

2 – No



24 How to differentiate?

UNDERWRITER vs CLAIMS HANDLER



25 How to differentiate?

UNDERWRITER vs CLAIMS HANDLER

Client should know his claims handler prior binding a policy with an insurer



Claims people to join underwriters and brokers during meeting with client.

IMPORTANT

Have a clear understanding of insurer's organisation and operations in case of claim (roles and procedure)

It is people's business, client wants to know who's going to handle the claim



Share past experiences and learn from it.

Clients would like to hear successful stories and even issues from past claims you have handled.

26 How to differentiate?

SHARING

WHAT?



INFORMATION



EXPERIENCE



LOSS PREVENTION

KNOWLEDGE



27 How to differentiate?

SHARING – A VIRTUOUS EXAMPLE: IVR AND ERS (ENGINE REGISTRATION SYSTEM)

IVR was founded in 1874 by insurance Companies from Germany and Switzerland.

After the second World War the association was refounded in Rotterdam in 1947 under the name "**International Association the Rhine Ships Register**" (IVR), in which apart from the original founders the insurance companies also the inland shipping organizations from all Rhine riparian States and Belgium were united. On 1 June 2001, it was decided to amend the articles of the association in order to be able to offer membership and representation in the bodies of IVR to the relevant industries from Central- and East European countries.

IVR is the first Pan-European association that formally admits the membership of representatives of inland shipping, the insurance, the shipbuilding industry and the shipping survey as well as other parties concerned from all over Europe.

For further information see www.ivr.nl



28 How to differentiate?

SHARING – A VIRTUOUS EXAMPLE: IVR AND ERS (ENGINE REGISTRATION SYSTEM)



Share information regarding comparable claims of same type and mark of machinery.



When breakdowns of machinery occurs at the same place three times, most probably this is due to a structural failure . The ERS helps to find the three similar cases. The web based system that IVR has developed informs the surveyors when similar cases have occurred and can inform parties concerned by means of an ERS alert.



Surveyors whilst submitting their case will be informed by the system if similar cases are present in the database, **of course anonymous**, thus making the surveyor aware of specifics which he can take into consideration when dealing with the claim.

The ERS helps to reduce claims, develop claim statistic on which damage prevention programs and advice can be drawn and with ERS recovery and damage prevention can be helped.

29 How to differentiate?

SHARING – A VIRTUOUS EXAMPLE: FOCUS ON ERS (ENGINE REGISTRATION SYSTEM)



- ERS was set up by 8 marine insurers in close co-operation with IVR. Presently there are 12 participants.
- A requirement is that the respective surveyor is member of a surveyor's association which has a certain level of membership qualification requirements in order to guarantee a certain level of quality input in ERS. Filling in the data on the ERS website takes about 5 minutes.
- IVR's Technical Secretary weekly reviews the automatically generated statistical data of input in order to establish if possible structural failures are present in the submitted claims. If so this is discussed with the ERS Board of Surveyors and a pre-alert or an alert data is send to all ERS surveyors and participants to gather more detailed information and to inform them about the status and details of possible structural failure.
- ERS over the past has proven its value not only with respect to revealing structural claims and getting compensations and modifications, but also with respect to obtaining relevant damage preventive information. The effects of all this in relation to loss ratios cannot be overseen by IVR, but it's obvious that this must be positive.
- ERS also generates damage numbers and causes statistics, which however are only communicated to ERS participants who pay the final bill of keeping ERS in the air.

30 How to differentiate?

SHARING – A VIRTUOUS EXAMPLE: IVR AND ERS (ENGINE REGISTRATION SYSTEM)



Example of couple of recent found structural failures which ended up with a discussion with the manufacturer/dealer to obtain modifications and how should be dealt with, with respect to still existing installations and compensations for damages already occurred.

Valve Springs Issue

3 similar breakage of valve springs problems. Research by IVR revealed a structural problem with valve springs (breakage of springs and resulting consequences) of a diesel engine.

IVR discussed this problem with Manufacturer and finally an agreement with them and their authorised Marine Dealers to avoid future damages and in relation to this. Dealers have sent an information letter to all their known for mentioned type engine users.

IVR had drawn up an investigation report on this matter and mailed it to all ERS surveyors and the ERS participants about the details, actions undertaken and information about settlements of claims related to the valve spring breakage on a commercial basis, based on number of running hours.

Also it was agreed that manufacturer would send a letter to owners with respect to this issue to inform them about the technical issues but also the possible arrangement on an individual basis, based on running hours.

Injector Issue

There was a suspected dis-functioning of injectors with respect to their expected lifetime.

IVR took this matter up with Manufacturer, which resulted in admittance of Manufacturer that indeed there was a “structural failure”/“limited lifetime” of these type of injectors of their engines.

A suitable agreement was achieved with Manufacturer in respect to recall, modification (the injectors were replaced by a modified type) and claim cost compensation, of which all ERS participants and surveyors were informed by IVR.

31 How to differentiate?

QUESTION 6

On your opinion are insurers equipped enough with in-house loss prevention team, surveyors and lawyers?

1 – Yes

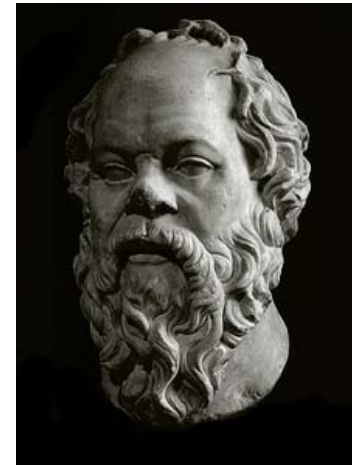
2 – No

QUESTION 7

Appointment of external professionals to handle claims is always the most effective solution considering costs and results?

1 – Yes

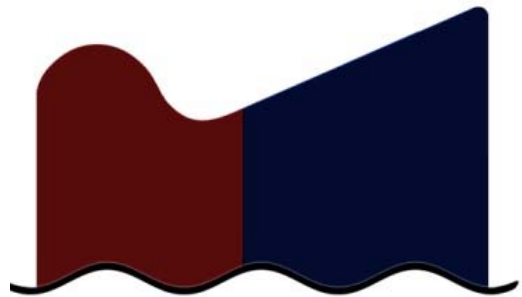
2 – No



"I know that I am intelligent, because I know that I know nothing" Socrates

IRISH BLESSING

As you slide down
the bannister of life,
May the splinters never
point the wrong way.



IMCC

**INTERNATIONAL
MARINE CLAIMS
CONFERENCE**

Thank you!

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www.scorpiogroup.net