



Claims Reserving

The challenges of accurate and timely reserving in a casualty situation

Does anyone really have the full story?

Joseph Shead – Richards Hogg Lindley – average adjuster

Martin Rivero – Evdemon – surveyor

Francesco Zolezzi – Cambiasso Risso – broker

Nick Coleman – Gard – claims adjuster

Andrew MacKenzie – Atrium – claims adjuster



Claims Reserving

Introduction

- Casualty situation occurs
- Various parties involved
- One aspect that arises – reserving

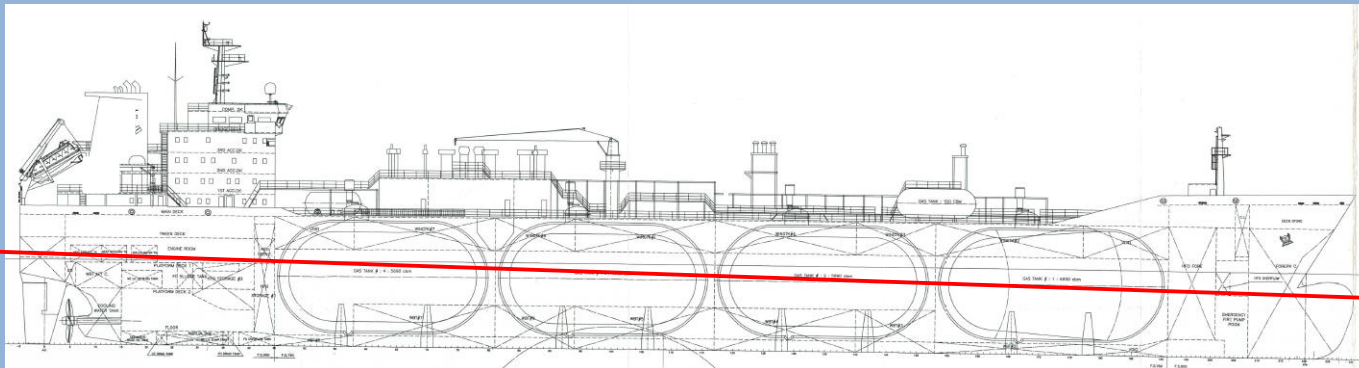
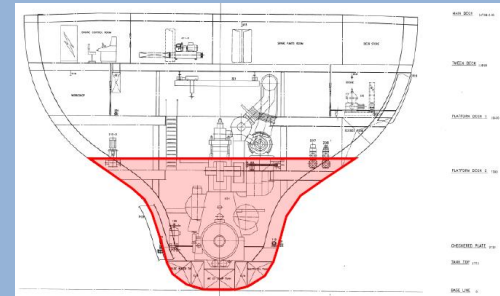
Question for audience:

1) Is reserving an important part of the process when a casualty occurs?

1	Yes, it should be number one priority
2	It is one of the important factors to consider when a claim arises
3	It is one of the important factors but can be thought about at a later date
4	It's not really a top priority, it is a matter of procedure
5	It is not important and can be done some other time
6	It is not important, the eventual claim will be what it is

Case Scenario 1 – E/R Flooding (a)

- LPG Carrier – Laden with 5,800MT of Butadiene, off Brazilian port.
- Vessel at anchors, divers called to seal sea chest, to dismantle defective sea chest valve. Sea chest seal collapsed while valve was dismantled.
- E/R flooded up to top of M/E and platform deck 2 (free communication with sea)
- Initial estimate for reserve of above USD 2 Million, subject to preservation works and cargo discharging to proceed to a repair facility
- De-watering: pumping out to slop barge. Port Authorities imposed deployment of anti-pollution equipment by certified OSRO.
- Port Authorities imposed stand-by tug, while at anchors and with main engine out of service





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- What considerations should be taken into account at this initial stage?

Question for audience:

Surveyors' initial estimate for a reserve is “above USD 2 Million”

2) What should be included in the Surveyor's initial estimate for reserve purposes?

1	All casualty costs including any foreseeable GA expenses
2	Casualty related repair costs stating what is included and what is not
3	Only those costs for which quotations have been obtained
4	An all-in guestimate of arising claim costs, including all disbursements and general expenses

Case Scenario 2 – Collision (a)

- Collision between container ship (shuttle type, 1350 TEUs) and general dry cargo ship (8637 DWT, 3 cargo holds).
- Own vessel (general dry cargo ship) laden with 8000 MT of cement in bulk. Container shuttle vessel in light ballast condition. Collision off Turkey coast.
- Both ships sustained severe structural damage. Own ship with midship section severely damaged, with marginal remaining longitudinal strength
- Both vessels firmly wedged with each other.
- LOF Salvage Agreement signed, with International Salvors, engaged for both vessels interests. Scopic invoked.





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- Again, what considerations should be taken into account at this initial stage?

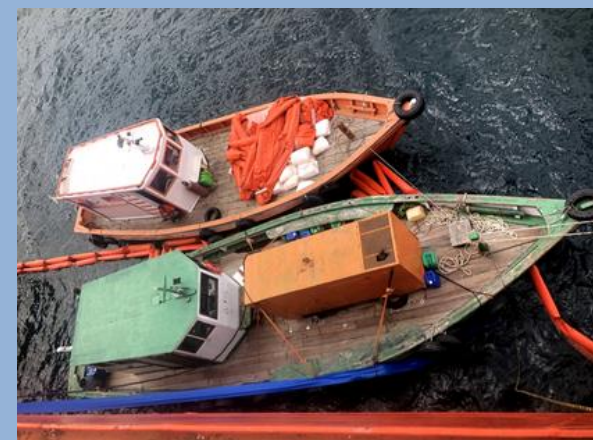
Question for audience:

3) Reserves cannot often be made with 100% accuracy. Is it better for insurers to reserve:

- | | |
|---|--|
| 1 | On the higher side of the claim estimate (conservative) |
| 2 | Using the midpoint of the claim estimate range (average) |
| 3 | On the lower side of the claim estimate (optimistic) |

Case Scenario 1 – E/R Flooding (b)

- Port Authorities were not open to authorize STS transfer and Terminal reluctant to allow cargo discharge alongside.
- Meanwhile cargo temperature (and pressure) built up and Owners in need to rush into expensive arrangement/overtime to repair and fit back on board electric motors/installation for cargo cooling system.
- Port Authorities required de-watering 4 days prior preservation team arrived on site → corrosion developed in ME parts & components
- Reserve revised to about USD 3 Million on account of corrosion damage on M&E parts & components
- As vessel continued at anchors, Port Authorities continue imposing standby tug and antipollution arrangements (OSRO) → costs escalating.
- Eventually Terminal & Port Authority authorized cargo discharge alongside, to a sister vessel of same Owner





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- What issues arise as the case progresses?
- Salvage costs
 - No contract signed (LOF or other)
 - Work carried out by local contractorsH&M Surveyor to evaluate and include such costs in his reserve estimate: separately or under total?
- Which parties can assist as the casualty develops further?
- “The surveyor has revised his reserve to USD 3 Million”
- Are there other claimable items to be considered for reserve purposes?
- Who is in a position to advise on these?

Case Scenario 2 – Collision (b)

- Separation operation carried out by Salvors, by cropping part of container shuttle bulbous bow, and pulled apart.
- Naval Architect engaged in assessing general cargo vessel residual longitudinal strength, nature/quantum of necessary temporary repairs for removal to repair S/Y, and safe cargo discharging sequence.
- Time-consuming exercise to deal with Port Authorities to allow temp repairs and allow vessel alongside to discharge sound cargo (CH#1 and 3)
- Preliminary assessment of damages allowed initial estimate for reserve of about USD 3M, including temporary and permanent repairs.
- Cement cargo in CH #2 solidified (some 3000 MT).





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Updating reserves :

- Who is responsible?

Question for audience:

4) How often should reserves be assessed/reviewed by lead insurers

1	Every month
2	Every quarter
3	Every 6 months
4	Yearly
5	Whenever there is an update from the surveyor or a claim estimate from adjusters
6	Never

Case Scenario 1 – E/R Flooding (c)

- M/E crankshaft polishing necessary: can only be carried out alongside
- Vessel only authorize to proceed alongside layby berth for repair in ballast & gas-free condition
- Lack of experience of Port Authorities in similar casualties and on laden gas carriers, reluctant to take timely decisions.
- Port Authorities required plans for towage to/from Terminal, transfer of cargo alongside and gas freeing at anchorage area.
- Additional requirements by Authorities caused a further delay of 2 weeks, with other LPG carrier standing-by to receive cargo from damaged ship.
- Authorities further required Class certification of cargo safety during transfer/discharge, causing additional delay.





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Updating reserves (continued) :

Question for audience:

5) In a complex case where there will be various heads of claim, who is most likely to be best placed to advise on potential claims for reserve purposes?

1	Owners
2	Brokers
3	H&M surveyors
4	Owners' solicitors
5	Average adjusters
6	Insurers
7	All of the above

- Where can information be obtained?
- Will any parties be better placed to provide advice on certain aspects?

Case Scenario 2 – Collision (c)

- Vessel allowed to shift to nearby port for effecting temporary repairs needed.
- Salvors were appointed for temporary repairs and caretaker services (imposed by Authorities), under hire contract as a package, covering vessel's tow to discharge facility and subsequently to Tuzla repair shipyard.
- Repair spec drafted, with estimated steel quantum. Tendering process with Tuzla zone repair shipyards.
- Side deck beam fabricated and fitted in way of main deck port side, bridging the side opening.
- Stiffening panels fitted (bolted down) between the breached edges of the port side structure, to partly reinstate necessary longitudinal strength to allow towage to repair shipyard in Tuzla area.
- Sound cargo from CH#1 and 3 discharged to warehouse.





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Question for audience:

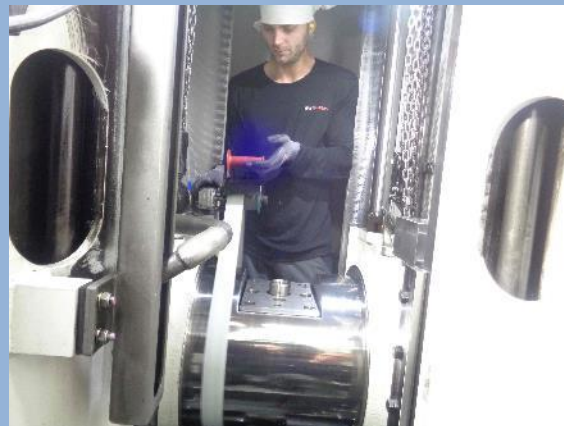
6) Where there is a possible CTL claim and an initial reserving figure is not possible, how should an individual marine hull insurer reserve?:

1	50% of the sum insured of the subject-matter vessel
2	100% of the sum insured of the subject-matter vessel
3	100% of the sum insured of the subject-matter vessel, plus an additional amount for salvage, GA and sue and labour
4	Maintaining a precautionary stance until further is known from their appointed surveyor / adjuster / lawyer

Initial reserve for obtaining **securities from opponent** vessel interests should allow sufficient safety margin for unknown/unforeseen costs – a very challenging task!

Case Scenario 1 – E/R Flooding (d)

- Cargo eventually discharged (transferred) alongside, and vessel shifted to nearby navy base for ME repairs.
- Cargo discharge delayed led to cost escalation (standby tug, services, etc.). As cargo discharge continue delaying, cost estimate further revised to some USD 4.5 Million, on account of additional standby tug costs
- ME polishing completed in 6 weeks (rather than 4 initially estimated) as limited repair facilities required ME parts to be shifted to specialized workshops far away.
- Finally, repairs completed in 3 months, versus the initial estimate of 6-7 weeks.
- Owners did not declare GA.



Case Scenario 2 – Collision (d)

- Vessel towed to repair shipyard.
- Solidified cement cargo broke/removed by pneumatic hammering. Difficulties in final disposal ashore of solidified cement cargo. Eventually negotiated with repair yard at a cost of about USD 500K (cargo removal and disposal).
- Temporary structure fitted to allow towage removed. Hull girder alignment verified. Damaged sides & deck structure renewed as original.
- Caretaker services in the final sum of USD 900K. Temporary repairs in the sum of USD 200K. Permanent repairs: USD 2.4M. Total overall USD 3.5M
- Total time for salvage, temp and permanent repairs of abt. 8 months.





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- Complications / difficulties in reserving
- What can cause problems?
- Lack of communication
- Lack of knowledge / understanding
- Pressures
- Do reserves ever get political ?



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Conclusion

- Reserving can be complex
- It is a team effort!
- Best practice considerations?

Questions from the audience?