LONDON BRANCH

Why should someone insure your ship?

➔ The June joint meeting on board *HQS Wellington* looked at the insurance of ships. The panel of speakers was chaired by Andrew Bell FNI, our Programme Secretary.

Iain Henstridge, Lead Hull Underwriter with Amlin, showed how risks are actively modelled using 'hard' and 'soft' information. Hard information includes that which is in the public domain on various websites, such as full disclosure of claims record, vessel type and age, tonnage and value, port state control record, and information on flag state and classification society. The soft information is the 'underwriter's magic,' gained through his knowledge and experience over the years. It might mean asking questions such as: 'Why has the broker brought this to me?' 'Provenance is important; can I legally write the policy – is it subject to sanctions or local risks?' and 'Why is the shipowner changing insurers?'

Assessing the risk

The underwriter is always looking for 'comfort' information about the shipowner, such as whether they have the right people in positions of responsibility. Crewing is absolutely vital, and lost time incidents and retention rate are key areas to look at here. Demonstrating that the crew on board have a high level of seamanship will facilitate insurance. The underwriter is also looking for a good relationship with the shipowner, particularly if the owner is willing to engage and be open with him. Offering to take a higher deductible will also be in the shipowner's best interest. However, it is a three-way process, with the broker the glue between the underwriter and the shipowner.

Charles Dymoke from Lodestar reiterated that the most important item when insuring a ship is the crew, noting that 80% of P&I claims are down to crew competence. He went on to explain the difference between fixed and mutual insurance. The fixed premium market tends to insure smaller ships (usually less than 20000gt for cargo ships, and less than 10000gt for tankers) and it is a simple insurance – the owner pays one premium for the year of insurance, which is tailored to the needs of the shipowner. Mutual insurance is more complex, insuring all types and sizes of vessel, so smaller operators may be at a disadvantage sharing the risks with larger operators. Pooling the claims may leave the smaller operator exposed. Premiums can be increased during the year and may be open-ended, keeping the policy going for more than a year. If the owner decides not to renew the policy, there are a complicated series of charges for which the owner is liable through subsequent years.

Charles said that the idea of placing all risk with a single insurer – the 'one-stop shop' idea – means only one premium to pay, but it also means less competition and less security. Most risk managers are more than happy to have more than one insurer as it spreads the risk.

Claims handling

Carl Gill, senior P&I Claims Handler at Lodestar, talked us through the handling of insurance claims. P&I will be advised of claims arising from owners, brokers and also from claimants either via lawyers or recovery agents. The first test is to check that the vessel is covered for the claim and on what basis. The claims department then have to decide whether to appoint a surveyor based on the information available to them. In some cases the information may be scanty and the expense of the surveyor's attendance may be less than the deductible on the policy. Unfortunately the P&I Club Claims dept usually get only one side of the story, unless it goes all the way to court – which rarely happens. Lawyers can usually agree to a division of liability acceptable to both sides.

Wreck removal claims are the most expensive, usually because it is difficult to estimate how long the job will take and when to take the decision to turn a salvage into a wreck removal. Carl illustrated these complications, and how general average is claimed, using case studies.

Questions and concerns

Following the presentations, the floor was open to questions. There were some concerns about whether there is sufficient incentive for a shipowner to look after his ships, given the lack of competition in the insurance market. The panel responded that an owner will face loss of earnings from the casualty, possibly a loss of reputation if they are constantly having accidents and causing pollution, but the prudent owner can gain a large reduction in premiums – much like the no-claims bonus in car insurance. The panel was asked about the increasing trend of non-Lloyds Open Form (LOF) contracts for salvage. The decision will depend on the value of the casualty and uncertainty of what the final bill will be under LOF, whereas lump sum (ie non LOF) contracts are more certain. It requires a cool head in a crisis and engagement with the owner/P&I Club etc to work out the best solution.

On the weighting put on the flag state's reputation, underwriters will first draw on data and statistics, which may set alarm bells ringing and they may then carry out more due diligence. The panel agreed that trade patterns of the ship are more important than flag. A final point on Loss Time Incidents (LTIs) and how to get companies to report these showed that owners who really engage with the market and can show that LTIs have reduced will be looked on more favourably.

This was a very useful seminar, particularly to mariners, providing lots of information on how ship insurance works, although it did show there is a lot we do not know!

Captain Harry Gale FNI