

Marine Insurance – Claims Trends

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Coverage is \$00000 last year

- “all risks” is becoming the norm
 - Fortuity isn't that hard to prove
 - IAPC as standard
- Deletion of key/standard exclusions
- Larger Increased Value layers = lower CTL threshold
- Marine Open Covers that act as de facto guarantees
- Diluted claims control obligations & cut through exposures
- Insurance Act 2015
 - In memoriam of warranty defences
 - Keep a good underwriting file
 - Market pressure for timely payment

English law approaches

Parties/Vessel	Year	Issue(s)	Result	
			Assured/Third Party	Underwriters
Garnat Trading v Baominh	2011	Hull - ATL/various	1	
The Bunga Melati Dua	2011	Cargo - ATL/ransom		1
The Silva	2011	War - CTL/exclusion	1	
The Cendor MOPU	2011	Cargo - fortuity	1	
The Buana Dua	2011	Hull - warranty/follow leader	1	
The Copa Casino	2011	Hull - warranty waiver		1
The Toisa Pisces	2012	LOH - due dil/disclosure	1	
The Nancy	2013	Hull - CTL/various	1	
The Princess of the Stars	2013	Liability - warranty		1
The Lehmann Timber	2013	Cargo - GA security	1	
The Irene EM	2013	Hull - CTL/various	1	
The Galatea	2015	Hull - disclosure		1
The Brillante Virtuoso	2014-16	War - CTL/wilful misconduct	1	1
The B Atlantic	2014-16	War - exclusion		1
The Longchamp	2014-16*	Cargo - GA allowances		1*
The DC Merwestone	2014-16	Hull - various	1	
The Atlantik Confidence	2017	Cargo - limitation/wilful misconduct	1	
The Ocean Victory	2017	Hull - subrogation	1	
			Assured/Third Parties: 12	Underwriters: 7

Quantum Mechanics – Build a Partnership

- Service orientated approach - manage payments on account
- Get in early – you know you will be paying something so get involved in the repair/mitigation process
- Manage assured and cedant expectations – firm but fair about what you do and do not pay for

More Focus On Recoveries

- Broken: the unthinkable has finally happened

The Atlantik Confidence (2017)

- proof of willful misconduct

- Other Assureds : keep open your subrogation pathway open

The Ocean Victory (2017)

- Co-insurance and agreement to an “insurance-funded outcome”

- Realistic Prospects: get early sight of your assured’s contracts

Transocean Drilling v Providence Resources (2016)

- loss of use exclusion and spread costs

Machinery Claims - Summary

- **Machinery claims account for a significant percentage of H&M claims annually. In UK alone it is estimated 60% of all H&M claims are for machinery damage.**
- **Reduced manning has been considered as a cost saving measure for owners, but how does that affect machinery claims?**
- **Is it possible to save cost and reduce claims at the same time?**
- **What impact is the reduction of the use of third party vendors for major overhauls?**



Costs of operating vessels continue to rise

- Increasing bunker prices
- Compliance with Charter Parties and resolution of disputes
- More complex equipment and machinery being fitted resulting in higher OPEX and component costs
- Maturing of the more cost effective seafaring nationalities
- Inflation driving pressure to increase crew wages



Bunker price index from March 2016 to March 2017
© Bunkerworld 2017



Rates continue to decline

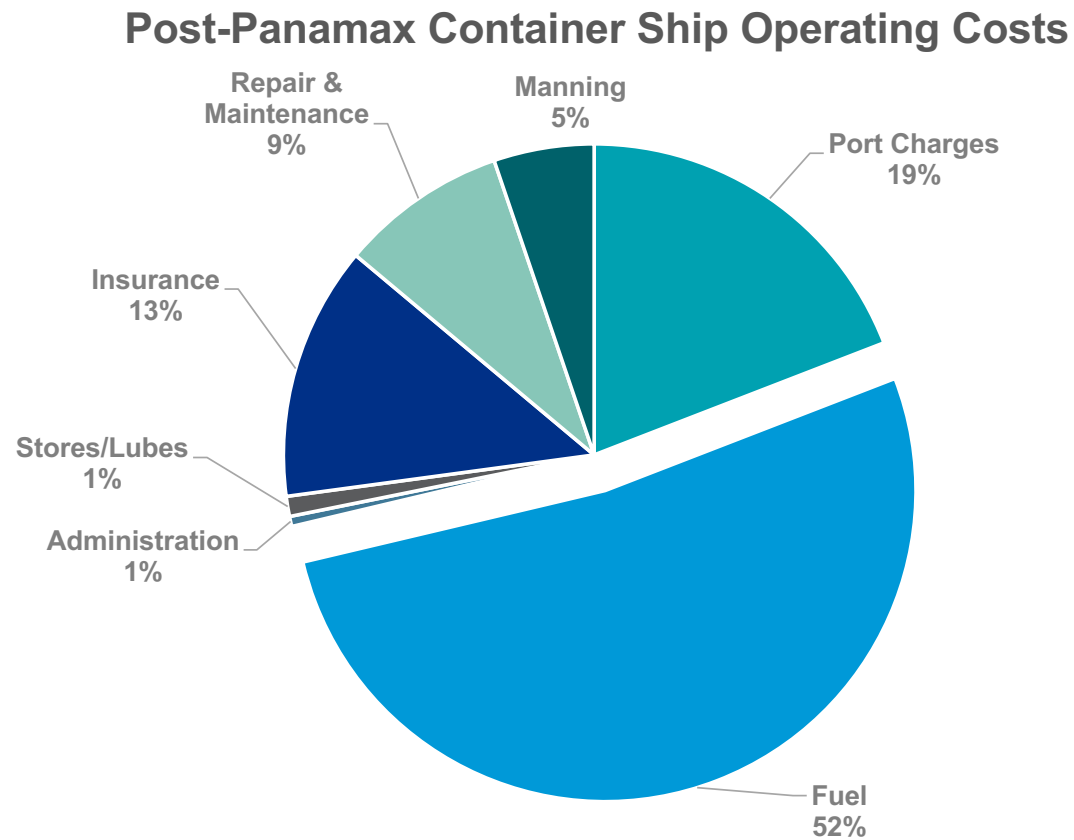
- Some improvement in certain areas
- Improvements are often not stable
- Over capacity in many markets leads to fierce competition and constant pressure on charter rates



LNG charter rates 2011 - 2015
© Clarksons



Cost of operating



Source: Hofstra University

Cost of manning

- Crew manning accounts for only 5% of the total OPEX of the vessel in the container ship example shown in the previous slide.

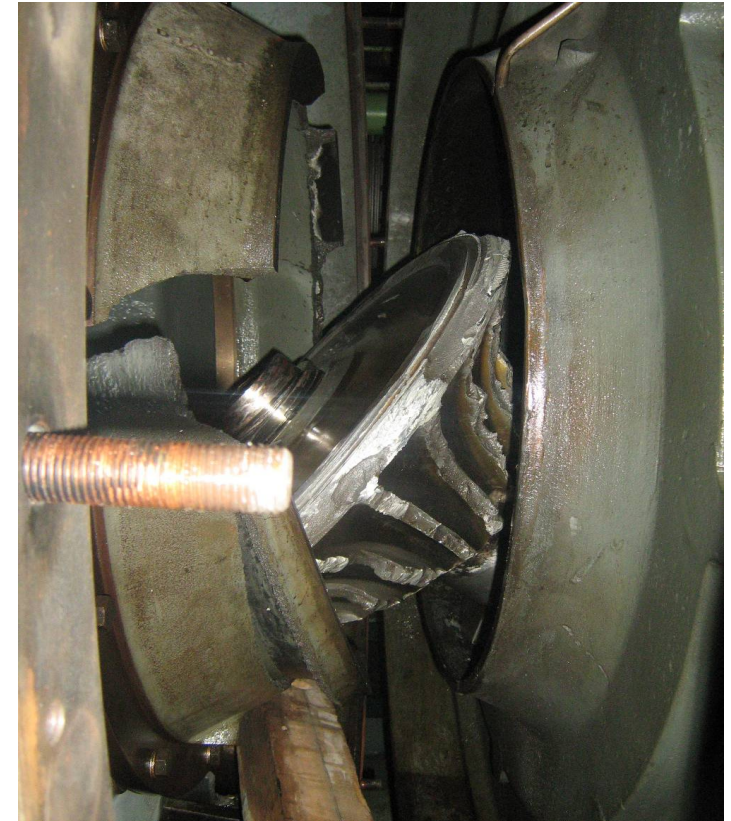


- Only 5%.
- The single biggest defence against machinery damage is the competency of the ships crew, yet we only invest one twentieth of the total costs in this area.
- As market pressures continue to impact owners and managers, and when the expected fuel price increase occurs, this number will likely decrease, not increase.



Impact

- Reduced levels of crew – no manning above minimum safe manning certificate requirements.
- Reduced levels of crew competency.
- Reduced budget for shore side maintenance teams to carry out major overhauls – now being carried out by crews who have very little experience in doing so and do not possess the level of technical competence to do so successfully.
- Made more critical by the increased use of high speed, maintenance critical engines for power generation.



Impact



- Reduction of CAPEX during new build to keep build costs down leads to machinery with a lower levels of repairability.
- Increase in technologies that crews are not familiar or competent with.
- Reluctance of engine makers / Class to accept repair options over replacement.
- All of which lead to repairs which often result in expensive full replacement as opposed to cost effective repair.



The cost of reduced manning



Minimum safe manning levels for larger vessels with high powered propulsion plants usually require something in the order of one Chief Engineer, one Second Engineer and two or three Engineer Officer of the Watch.

So that's all you need to operate your vessel and this may seem like the most cost effective way to man a vessel; but is it?

The Minimum Safe Manning Certificate stipulates the required crew to sail the vessel safely from point A to point B, but it does not really take into account any provision for on board maintenance.

Costs savings will be achieved of course in terms of wages, but as we see above - already such a small % is being invested in crew.

The cost of reduced manning



So it seems like a good idea. Save costs and operate your vessel still within the requirements of the Minimum Safe Manning Certificate. Trouble is it doesn't usually work out that way.

Reducing manning in such a way means that the remaining crew have more on their plate – maintenance quality & frequency suffer.

From the machinery breakdowns that I and my colleagues have investigated over the years, lack of, or poor execution of, maintenance is the root cause in the majority of cases.

H&M cover might be in place but increasing deductibles & vessel downtime directly impact owners & operators.

The cost of reduced manning



- My advice would be that before you reduce your technical manning any further, take a proper look at the duties and workloads of those on board.
- If there is any chance that the manning reduction might jeopardise the critical maintenance that is required to keep the machinery running and the vessel trading then it's probably not the cost saving you hope it will be.

