



CBMU

**Claims & Loss Prevention
Committee Report
2009**

**Presented by
Narayan Iyer, Chair**

Committee Members

- Narayan Iyer Marine Claims Technical Manager, CNA.
- Mel Fernandes Director/Surveyor, McLarens Canada
- Rui Fernandes Maritime Lawyer, Fernandes Hearn
- Neil Sortur Claims Manager, Avec Insurance Mgrs
- Patrick Lobo Assistant Vice President, Marsh Canada
- Mike Kronic Ont. Claims Manager, Coast Underwriters

The Committee met and discussed all issues affecting world markets in general and Canadian in particular both with respect to Marine Claims and appropriate loss prevention.

Seminars - 2009

The Committee organized the following Seminars during the year 2009:

- Captain Saleem Ahmed Marine Manager made an excellent presentation on the topic “*Ships & Shipping in Canada*”. In particular he talked about type of barges, great lakes fleet and tugs operating in Great Lakes waters.
- Captain Saleem also spoke about basics of Hull Underwriting which was well attended. Mr. James Thomson, Maritime attorney of Bersenas Jacobsen, talked about Hull & legal liabilities with particular reference to Ship Owners liabilities under the Canadian Marine Liability act.
- This seminar was well attended by both our marine underwriting and claims personnel members. Feed back from members has been very good.
- Mr. Jeremy Bolger will be discussing amendments to Canadian Companies Act

Impact of Recession on Cargo Underwriters

- Maintenance of Basic Infrastructure
- Accumulation of Values- Huge Build up of Inventory Exposure + Storage
- Moral Hazard (Economic Total Losses)
- General Average Contribution: Reduced Market value of ships at the time of casualty thereby placing cargo owners and Underwriters at a distinct disadvantage in terms of GA contribution
- Protectionism – Example: US Government encouraging consumers to buy goods “Made in America” - acting as a deterrent to Imports and International Trade
- Higher percentage of Unemployment possibly leading to Employee Theft and Mysterious disappearance of cargo
- World wide economy down by 20-30%, except Asian Countries – less shipping volume
- Number of Containers shipped worldwide reduced by 12%

World Markets

Loss Ratios & Developments



Whilst most sectors of the insurance industry are reporting increased income and profits, H&M underwriters as an industry have suffered substantial losses during the 5 year period 1997 – 2001. During the last 6 year period, from 2002 – 2008, the loss ratio seems to have improved considerably despite increase in claims cost by almost 53%. [IUMI 2009 Conference]

Underwriting Year/ Years	Cargo Loss Ratio	Hull and Machinery Loss Ratio	Combined – Cargo & H&M Loss Ratio
1997 - 2001 (5 year Average)	85%	101%	84%
2002 to 2005(4 Year Average)	64%	98%	81%
2006 to 2008	66%	81%	76%

Canadian Markets

Loss Ratios Per OSFI & Developments



Marine business produced excellent results in 2002, 2003 and 2004. As a result, market softened and we saw deteriorating results in 2005. Overall loss ratio for the year 2009 based on OSFI report at the end of 3rd quarter is consistent with the last 2 years.

Year	Underwriting Loss Ratio
2000	80.55%
2001	75.35%
2002	63.00%
2003	47.18%
2004	45.54%
2005	87.21%
2006	128.20%
2007	41.64%
2008	55.47%
2009 as of 3 rd quarter	48.11%

H&M Claim Statistics – World Market

Year	Claim costs per vessel (US \$) by year	All Claims Excluding Total Loss Claims
2000	40,000	50,000
2001	58,000	42,000
2002	40,000	58,000
2003	43,000	58,000
2004	60,000	79,000
2005	60,000	70,000
2006	65,000	85,000
2007	82,000	105,000
2008	81,000	90,000

Cost of claim per vessel has gone up from US\$ 56,000 during 2000 to 2003 (4-year period) to an average of US\$ 86,000 during 2005 -2008 (5-year period). This would represent an increase in average claim cost per vessel of more than 53.57% during the period 2005 – 2008. [IUMI 2009 Conference].

Report on Rail Accidents and Canadian Transportation Safety Board Recommendations

- No of accident in the year 2006 - 1,142 of which 50 % relate to derailments.

Incident	2004-2008 Average	2008	2009
Total Accidents	570	507	439
Main Track Derailments	71	61	37
Non Main Track Derailments 1-2 cars	221	182	153
Non Main Track Derailments 3+ cars	64	68	42

Transportation Safety Board Recommendations

“The effective management of safety requires an organization to have a culture, structures, and processes in place to allow for proactive identification and mitigation of risks.”

In the Cheakamus investigation, the TSB determined that no formal risk assessment was performed before CN resumed operating distributed power trains on the steep mountain grade.

In the Prince George, the TSB found that the risk assessment conducted before the accident was inadequate in identifying the hazards and mitigating the risks involved in switching long, heavy cuts of cars on the descending grade.

Areas to Look Out For

- Insurers are experiencing:
 - Claims involving carrier contracts with no limitation of liability, especially in the trucking are
 - An increase in groundings and thefts involving yacht claims
 - An increase in loss of life in the fishermen on small fishing vessels
 - An increase in the frequency and complexity of freight forwarder claims.

Inter Model Transport – Report from Europe

- European market experiencing increase in thefts- freight weekly
- Increase in frequency of truck thefts
- More than 200,000 trucks stolen each year- Est. value € 8. 2 Billion.
- 60% while being parked
- 28% during load shifts
- 27% during at non secured parking sites
- 4% from secured parking sites
- USA experience on cargo theft
- Estimated at approx. US \$ 30 Billion
- Investigations reveal that these activities are carried out by “Typical criminal enterprise” - a leader who runs both National & Regional operations, employing specialists to foil anti theft locks on truck trailers.
- Europol Cargo theft report issued in the Hague 2009 states that the trans-national scale of this crime and the value of it in terms of losses to the industry and its violent nature are very obvious.
- 17% of all drivers have suffered an attack
- 30% of drivers have been attacked more than once
- 21% of drivers have suffered assault

Inter Model Transport – Report from Europe

- 60% of attacks targeted vehicle and load and 42% took place in parking areas.
- 30% of drivers DID NOT report the incident to police for fear of retaliation from the culprits.
- Driver involvement in thefts are high but drivers are the weak link in the security of the Supply chain and need to be properly trained and educated on cargo crime and personal safety on the road.
- *High Risk Countries include:-
UK, NETHERLANDS, LUXEMBOURG, BELGIUM, FRANCE
LATVIA AND SPAIN
- *METALS of various types have become a “hot” item. Other items include alcohol, computers, name brand clothing, cigarettes and prescription drugs.

Inter Model Transport – North America

- Specialty Focus Magazine article by Scott Corber states that Mississauga along with Florida and Texas are among the top locations for cargo theft in North America.
- Cargo crime is now the Number 1 crime in MEXICO with more than 100 criminal gangs targeting high value cargo.
- CARGO THEFT in North America is estimated at \$60 BILLION according to the International Cargo Security Council
- Loss Prevention requires proper dialogue with all logistic providers. Insured's should develop a task force team to implement loss prevention measures
- *Implement a training program.
- *Ask Truckers to use GPS. The use of electronic tags is recommended.
- *Use only secure Parking areas and avoid Layovers if possible.
- *Avoid using companies that sub contract loads without permission
- *Temporary Parking facilities must have proper security and lighting
- *Loaded Trailers and containers should be provided high quality Pin Locks.

Report on increasing piracies and alert to Underwriters



- As per latest IMO Reports there is an increase in frequency of piracy activities
- **PIRACY IN THE GULF** of Aden and Indian Ocean off the Somali Coast reached unprecedented levels in 2008, with the number of attacks increasing 152 percent from 2007. Guns were used in 102 of the 111 attacks in the Gulf of Aden and Indian Ocean. Somali pirates hijacked 42 vessels last year, taking 815 hostages, according to IMB figures. Somali pirates killed four crew members in 2008, injuring two others, IMB said in its annual report.
- **SOMALI PIRATES** operating in the Gulf of Aden or the Indian Ocean accounted for nearly 60 percent of worldwide piracy in the first quarter of 2009. There were 61 attacks off the Somali Coast from Jan. 1 through March 31, including 41 attacks in the Gulf of Aden. Nine of those ships were hijacked, according to IMB.
- Nigeria and Peru were the location of the next highest number of attacks: seven each.
- The number of attacks in the first quarter of 2009 alone, 61, already was higher than the annual total for any year from 2003 through 2007.
- **PREVENTIVE MEASURES**
- Training a crew and fitting a ship to with alarms, black boxes, electrified railings etc..
- Add defensive measures such as fire hoses, barbed wire and locked safe rooms and training their crews in how to evade pirates.
- Ships in convoys through the Gulf of Aden and Naval protection increasing

Update on Changes to Ontario Court Rules and the impact on Marine Insurers

- **Ontario Court Rules Amendments Effective January 1, 2010- Impact on Insurers in General** -Highlights of major changes
- will impact insurers and claimants litigating in Ontario.
- following are highlights of the major changes:
- The Small Claims Court monetary limit has been increased from \$10,000 to \$25,000.

The Simplified Procedure in the Superior Court of Justice has been increased from \$50,000 to \$100,000. Claims between \$25,000 and \$100,000 will be subject to simplified procedure rules. Examinations for discovery on simplified procedure are limited to 2 hours per party.

For claims over \$100,000 the discovery process has been dramatically reformed. To avoid “fishing expeditions” – lawyers asking questions for days and days fishing for potential helpful information – the new rules allow each party to examine other parties under oath on discovery for a maximum of 7 hours.

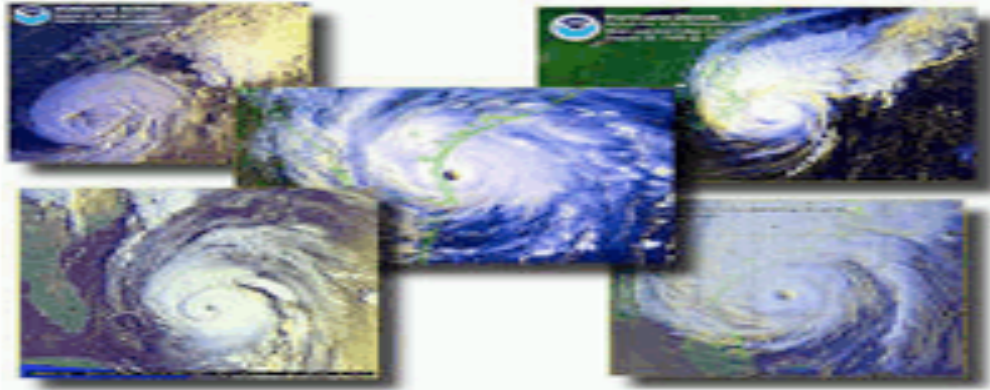
- The rules for applications for summary judgment have been radically changed. Judges have been granted greater discretion to make decisions.



Update on Changes to Ontario Court Rules and the impact on Marine Insurers

- It is expected that the rules will impact insurers in several ways. Examples are:
 - a) A lot of front end work – investigations, witness statements, hiring experts early will be required to meet the demands of the potential summary judgment application. This will mean additional costs to insurers at the beginning of a claim that is in litigation. Lawyers will be required to do a lot of the work at the beginning of the file.
 - b) Once the front end work is done, the costs of discoveries and court applications relating to discoveries should be reduced. Instead of having a week of discoveries for one witness, for example, this may be reduced to one day.

Lloyd's "360 Report" - on Rapid Climate Change



According to Lloyd's latest report, climate change is likely to threaten countries' economic and national security, sparking growing tension between states as they compete for increasingly scarce natural resources, says a new report published by Lloyd's.

Climate change will make fresh water an increasingly precious resource, put food production under greater stress, create extra volatility in the supply of energy and trigger population shifts from countries with scarce resources to those with more, says the report.

According to Lloyd's CEO the economic risks of these changes are enormous and alarming. The report suggests that insurance industry should respond to this increased risk and also have a suitable Disaster Management Recovery plans to combat these changes.

Allianz and World Wildlife Federation Report on Earth's Climate System and the Consequences for the Insurance Sector.

- Climate change will not happen in a steady, predictable fashion, but rather in an unpredictable manner, potentially costing hundreds of billions of dollars in damages
 - A number of 'tipping points,' that when reached, will set off a negative chain reaction
 - For example, the melting of the Greenland and the West Antarctic Ice Shield could lead to a tipping point scenario. This 'tipping point' could lead to a sea level rise of up to 0.5 metres by 2050.
 - This sea level rise is estimated to increase the value of assets at threat in all 136 global port mega-cities by more than US\$28 trillion.
 - Also, California is likely to be affected by increasingly severe droughts and levels of aridity.
 - The annual damages caused by wildfires could be tenfold compared to today's costs and could reach up to US\$2.5 billion per year by 2050, and US \$14 billion by 2085, the report warns.
- Source: CIP Society news letter

Loss Prevention Committee's Plans for 2010

- Committee will canvass the market to obtain consensus on type and cause of losses covering major events/specific type of losses that seem to be frequent and common to all markets –specifically trailer/containers thefts and roll over.
- Committee shall meet periodically to discuss all issues affecting Marine claims.
- Committee shall organize periodical educational seminars/ field trips for the benefit of Marine fraternity.



THANK YOU

