



C B M U

Claims & Loss Prevention Committee Report 2010

**Presented by
Narayan Iyer, Chair**

Committee Members

- Narayan Iyer Claims Technical Manager, Eagle
- Mel Fernandes Director/Surveyor, Mclarens Canada
- Rui Fernandes Maritime Attorney, Fernandes Hearn
- Neil Sortur Claims Manager, Avec Insurance Mgrs
- Patrick Lobo Assistant Vice President, Marsh Canada
- Mike Kronic Claims Manager, Coast Underwriters

Seminars - 2010

The Committee organized the following Seminars during the year 2010:

. Howie White of Mclarens Canada made an excellent presentation on the topic of Handling Hull, Machinery and Yacht claims. He covered all aspects including Underwriting, Risk Management, Pre risk surveys, Claims handling including basic hull/yacht damage to major complex hull claim including ship repairers and builders risk claims.

Philip Vardon made an excellent presentation on Cargo securing as well as Cargo security. He discussed the importance of packing/stuffing and preparation of the cargo in a manner that will withstand the entire transit. Philip also discussed pre risk loading surveys, claims handling , recovery and loss prevention both from the Cargo/Hull and ship repairers legal liability point of view. All the delegates appreciated his presentation- both lively and educational.



Impact of Recession on Worldwide Marine Insurers

- Accumulation of Values- Huge Built 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 .Higher percentage of Unemployment leading to Employee Theft and Mysterious disappearance of cargo due to organized crime
- Worldwide economy down by substantial percentage except Asian Countries **Cargo and Hull income and results** -Cargo : •2007 and 2008 deteriorated heavily
- Strong drop in income in 2009 due to the crisis, impact also expected in 2010 by increase in claims frequency
- Changes in Insured values on renewed vessels . It has been observed by Hull committee at IUMI that 2010 average Insured value on the hull have been significantly reduced by an average of 9.2% over 2009 obviously affecting underwriters premium income.

World Markets

Loss Ratios & Developments



Marine Insurers as an industry suffered substantial losses during 2008 and thereafter deteriorated heavily. Strong drop in income in 2009 due to the crisis/recession also had an impact in the year 2010.

Underwriting Year/Years	Marine Cargo Gross Ultimate Loss Ratio	Hull and Machinery Loss Ratio
1998 to 2001 (4 Year Average)	60%	106%
2002 to 2005(4 Year Average)	64%	74%
2006 to 2009	72%	81%

Canadian Markets

Loss Ratios Per OSFI & Developments



Marine business produced good result during the years 2002, 2003 and 2004. As a result, market softened and we saw deteriorating results in 2005. Overall loss ratio for the year 2009 & 2010 based on OSFI report at the end of 3rd quarter 2010 is encouraging.

Year	Underwriting Loss Ratio
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	51.80%
2010 as of 3 rd quarter	51.98%

H&M Claim Statistics – World Market

Year	Average cost of all Blue water Hull claim Excluding Total Loss claims
2000	160,000
2001	152,000
2002	150,000
2003	150,000
2004	180,000
2005	225,000
2006	240,000
2007	250,000
2008	260,000
2009	260,000
2010	275,000+

Cost of claim per vessel has gone up from US\$ 160,000 during the year 2000 to 275,000+ in the year 2010.

Effect of Inflation on Hull Repair Cost

	2004 (US \$)	2009 (US \$)	5 Year Inflation	Series Used
Steel plates	274,662	456,108	66.1%	World Steel Price
Work	787,789	1,056,453	34.1%	South East Asia – Wage Index
Other materials and fix costs	918,617	1,014,228	10.4%	Flat Inflation 2% PA
Yard Profit	410,732	338,076	17.7%	World Equity Index
Total Loss	2,391,800	2,864,865	19.8%	

Loss was estimated in 2004 but the vessel wasn't repaired till 2009 (i.e. claim paid in 2009)?
 What happens if the premium charged in 2009 is equal to the premium charged in 2004?

Effect of Inflation on Insurers

Reserving

- Estimate of future claims payments for claims outstanding
- Is past inflation a good indicator of the current/future inflation?
- Invalid evaluation of claims liability in Balance sheet

Pricing

- Estimate of next policy year expected loss
- Use inflation assumptions to express claims in the value terms of the next policy year. The Premium is too low to cover the claims liability

Capital Modeling

- Estimate of Premium and Claims/Reserves uncertainty to calculate the level of capital required
- Inflation is a key driver of the level of volatility of Premium and Reserves
- Insufficient financial resources to fully meet the insurers obligations.

IUMI- Loss Prevention Committee Conference in Zurich, September 2010

Narayan Iyer, represented CBMU, Canada at the committee meeting held in Zurich and participated at the Annual Meeting where following Seminars were presented:

- Transport of liquid cargoes in flexi bags and containers - Captain Hans-Joachim Grasshof -Hapag-Lloyd
- Risks arising from the transport of iron ore fines loaded in Indian ports - Willem Van Renterghem - DP Survey Group
- IUMI Observer activity at IMO Questionnaire sent to 55 National Associations across the Globe asking about Main sources of attritional losses, Prevention measures adopted to reduce their frequency, Details about 5 largest losses per class of business, Measures to prevent re-occurrence of such large losses or to reduce their severity
- Answers received from **13** Associations (**24%** response ratio) - 7 from Europe, 2 from Africa, 3 from Asia/Oceania, 1 from America

IUMI- Loss Prevention Committee Conference in Zurich, September 2010

- Based on the responses received, the Committee analyzed as follows:
 - Attritional losses main sources - Cargo: shortages and thefts, breakages due to poor packing and stowage
 - Hulls - generators, crew incompetence, thefts of yachts overboard motors or dinghies
 - Large losses main sources - Cargo: thefts
 - Hulls - fire/explosion, collision, grounding, general average
 - Loss Prevention Measures Recommended by IUMI Loss Prevention Committee
 - Prevention measures to reduce frequency/severity - Cargo: antitheft devices, remote controls, use of guarded parking areas, self-insurance (deductibles), packaging
 - Hulls - condition surveys (JH 10, JH 143), scrutiny of quality of the vessel (Paris MOU New Inspection Regime
 - Selection of clients (moral hazard –yachts)

H&M – Serious & Total Losses (including ATL &CTL other than partial losses- 1994 -2009)

By age of the vessel	Number of Incidents
0 to 4 years	Less than 500
5 to 9 years	500 +
10 to 14 years	750 +
15 to 19 years	800 +
20 to 24 years	800 +
25 to 29 years +	1,700 +
30+ years	4,500 +

Vessels – 30+ years old has been a major contributing factor for all large losses over the last 15 years

H&M Casualties – Serious & Total Losses 1994 – 2009 – Vessels Greater than 500 GRT

By cause	1995 to 1999	2000 to 2004	2005 to 2009
Weather	30%	25%	44%
Grounding	22%	16%	18%
Fire & Explosion	18%	16%	8%
Collision /Contact	13%	14%	15%
Hull Damage	7%	15%	6%
Machinery	6%	8%	7%
Others	4%	6%	2%

Weather has been a major contributing factor for significant portion of hull claims during the last 15 years.

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- dollar value 8. 2 billion Euro.
- 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 30 billion us\$
- Investigation reveal that these activities are carried out by
- ‘Typical criminal enterprise’ has a leader who runs both
- National & regional operation who employ 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.
- Often collusion between parties in the supply chain has made it easier for thieves to execute trailer thefts with speed and precision. Because of the many parties in the supply chain finding the source of the “leaks” is very difficult.
- *Losses across Europe estimated at 8.2.Billion Euros.
- *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.
And Electronics

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 ward off pirate attacks.
- 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

Law Changes affecting Marine Insurers and the impact on Marine Insurers

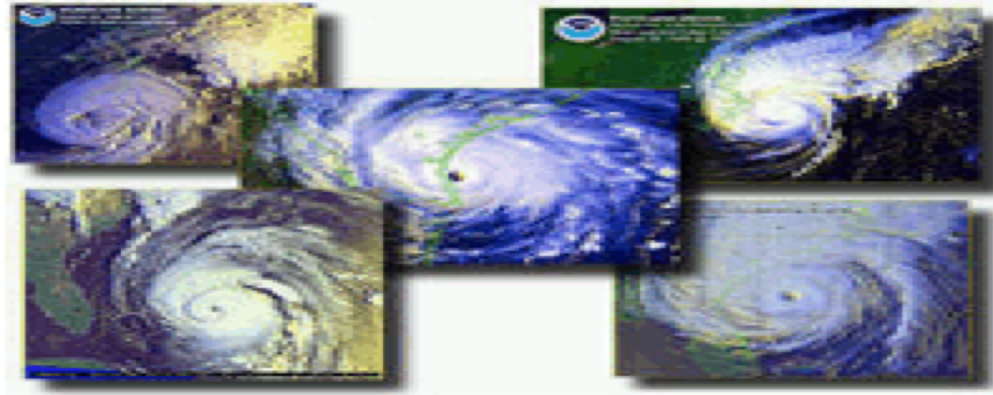
- **Ontario Court Rules Amendments Effective January 1, 2010- Impact on Insurers in General** -Highlights of major changes
- will impact insurers and claimants litigating in Ontario.
- following are highlights of the major changes:
- The Small Claims Court monetary limit has been increased from \$10,000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

Climate Change & Energy- Inter relation & Effects



- Climate change mitigation action has implications for ship design, engines, fuel systems, operations, services, management, value, etc.
- Indirect implications through changes in demand for shipping services etc; for example, climate induced changes in trade structure flows and patterns through impacts on sectors such as energy production and consumption, agriculture and food products, demography and human settlement, etc.
- Climate change mitigation and adaptation require energy. However, there are signs of alarming energy crisis. Shipping is heavily reliant on oil for propulsion and not yet in a position to effectively and widely adopt substitutes .

Claims & Loss Prevention Committee - Plans 2011

- 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 (organized crime) 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.
- Closely work with IUMI Loss prevention committee for the mutual benefit of CBMU members and the International Insurers on the IUMI banner.



THANK YOU

