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THE WORLD'S FORGOTTEN MARINERS

IUMI Chief Urges Action on Piracy

Norway's Ole Wikborg, a leading hull underwriter in that market and president of the International Union of Marine Insurance, today called for governments of maritime nations to take urgent, cohesive and decisive action, whether through the United Nations or not, to rid the seas of the scourge of piracy. "There has been too much prevarication for too long," he remarked.

"Those who suffer the most are the seafarers and efforts must be increased to ensure their safety," he said: "Politicians and bureaucrats seem to care little about the unrelenting increase in pirate activity and the threat faced by crews when their ships pass through the piracy infested areas, most notably the Indian Ocean and the Gulf of Aden. It would appear that scant regard was paid to the IMO's 'Year of the Seafarer'. It is worth repeating yet again that merchant ships and those who sail them are vital to our very existence.

"The International Maritime Bureau, the industry watchdog, has reported an all-time peak in pirate activity and hijackings. Its latest figures show that Somali pirates hold 746 hostages and 32 merchant vessels – truly, the forgotten mariners. Many of the captive officers and seamen have been held for many, many months. What must they and their families be going through?

"Up to Jan 21, the Somali pirates have been responsible for 31 incidents, six hijackings, and taken 136 hostages – and there is still a week to the end of the month.

"In the background, of course, the shipowners involved, not to mention a lot of cargo owners, along with insurers, are paying a very high price because of ransoms and loss of trade and profits."

The worst may be yet to come, he claimed. The pirates were attempting to capture vessels of any type, including fully-laden tankers and gas carriers, and had succeeded early on in one high-profile hijacking of a VLCC. And just recently a cruiseship was in their sights but the master skilfully outsped the pirate boats, and it is reported that other cruiseships have previously been targeted.

But last week's news was encouraging when a South Korean naval vessel tracked a ship in the Arabian Sea that had been hijacked a week earlier. Korean commandos stormed the ship and rescued all 21 crew, killing eight pirates and capturing several others. It must be

hoped that this incident will deter those pirates searching the seas for a sitting duck from pursuing their intentions.

A big worry was that the piracy nightmare was deterring many young people from going to sea. Official figures released last week, he said, revealed that 1,200 people were taken hostage by pirates in 2010. Somali pirates had extended their operations to include most of the Arabian Sea and a significant part of the Indian Ocean down the east coast of Africa. And the total cost was estimated at a staggering \$238 million. Marine underwriters were bearing the brunt of these costs, but they continued to provide the financial cushion and security for shipowners trading in dangerous waters.

Piracy is one problem disrupting shipping and global trade, albeit a very significant one. Elsewhere, the excess capacity that is now rampant in the shipping industry and in the marine insurance market is challenging underwriters' efforts to achieve some stability in their business, allied with underwriting discipline.

While new ships are leaving shipyards in a steady flow, old tonnage going for scrapping is still but a trickle by comparison. With fluctuating sums insured, underwriters' exposure also fluctuates and which we must respond to. There is always the issue of over/underinsurance, although conditions generally take care of this, which means that underwriters must be ever more vigilant in their appraisal and rating of the risks shown to them.

"Looking ahead, all shipping sectors, perhaps with the exception of boxships, will face challenges in 2011 and 2012. Tankers seem to be highly exposed and, in my opinion, unlikely to recover in the near future. The bulk trades are somewhat dependent on China, where things are slowing down, but not China alone. India, for instance, is a big destination for bulk cargo.

"The tragic floods in Queensland, along with other freak weather events around the world, have highlighted how vulnerable the global economy is to disruptions in the supply chain. The flooded mines in Queensland have stopped all chartering activity and will continue to do so until the mines have dried out. However, the biggest threat to bulk shipping is the oversupply of new tonnage."

This was the background to the winter meeting in London of IUMI when its executive committee met for two days. Ole Wikborg, who was elected IUMI president last September, succeeding Deirdre Littlefield, told a media briefing today that both the hull and cargo markets are experiencing flat or some downward pressure on premium rates as new capital flows into the market, attracted by a claims climate that remains generally benign and a growing world fleet.

He said: "The fierce competition in the market was the subject of comment by broker Willis in its year-end review, stating that 'the surplus capacity...defies logic as more insurers queue up to enter an already crowded line of business where rates are continuing to fall.'

“However, hull business has shown an overall technical loss for 14 consecutive years. Underwriters are always at the mercy of changes. They need to be aware of the changes in the global economic dynamics that will impact their claim costs. For example, the price of steel that can affect repair costs and repair yard capacity. Volatile exchange rates and falling or rising commodity prices are other exponential factors.

“And major claims can occur at any time, although one reason for the 2010 policy year looking quite promising at present is the relative low number of major claims. Cargo insurers, however, have been hit by some cat losses in the wake of the natural disasters, particularly in the Asia region.

“Due to the potential accumulation of risk (hull and cargo), marine insurers are warily watching the leap in the size of vessels. For example, some owners are reported to be discussing possible orders with Korean yards for a series of 18,000teu mega boxships. The biggest cruiseship in service now can accommodate nearly 6,000 passengers, and just recently we have seen machinery accidents to two of these vessels, including the *Carnival Splendor*. The challenge with these big vessels is their technical complexity and how to call the ‘right’ premium. But the market will provide sufficient capacity, provided the premium is right, to cover these vessels, even if the exposure is very high.

“Because of the values involved, the loss of one of these floating small towns would blow a devastating hole in the worldwide marine insurance market.”

Another area of concern for underwriters, the IUMI president continued, was the fact that the maritime industry is undergoing a digital revolution which is putting huge pressure on mariners, especially bridge teams who have to cope with digital navigation and automated systems for every part of the vessel. “Is enough time being given to training mariners for this new world,” he asked, adding that the industry was also facing a shortage of officers.

“It could be said that today's youngsters are well equipped to handle the electronics, but the problem is that they rely heavily on the information provided by the electronic devices as opposed to looking out of the window to observe. We need seafarers with practical experience gained through time at sea and not at fancy colleges on shore. Seetime is important and should be made attractive.

“Elsewhere,” said Mr Wikborg, “insurers now have to grapple with an increasing number of trading sanctions and regulations to ensure they do not fall foul of rules governing who and what they can do business with. At our Zurich conference last September a speaker from a leading law firm warned that underwriters must prepare themselves for a world in which sanctions are the norm, rather than the exception.” Looking ahead, other matters in the frame were the green challenge for shipping and Solvency II.

Turning to the offshore energy market, the IUMI president said that the *Deepwater Horizon* disaster would cost in excess of US\$2 billion, and it would make an impact on the 2009 and 2010 underwriting years. It was a very volatile business, he said, and results depended strongly on the impact of hurricanes, though the absence of these did not mean

there were no losses. There were no regular claims patterns, in fact, and claims reserves were individually assessed.

Today, executive committee members and IUMI secretary general Fritz Stabinger were joined by the chairs of IUMI's seven technical committees to help plan the themes and programmes for the spring meeting in March in Naples and the important annual conference in Paris (September 18-21).

A hot topic that IUMI has been discussing this week is environmental salvage. The International Salvage Union has proposed changes to the salvage conventions. Mr Wikborg commented: "The outcome of the debate will affect hull, cargo and marine liability underwriters. We will be taking into account the comments and opinions by all participants today. The IUMI secretariat has requested our 55 member organisations to submit their views which will then result in a broadly-based IUMI position on the matter."

Mr Wikborg said that IUMI was indebted to Nicholas Gooding (representing London market marine property underwriters), senior cargo underwriter, XL London Market Ltd., for his expert advice and comments on this matter, and similarly to Cefor (The Nordic Association of Marine Insurers) for its input.

On Wednesday this week, Ole Wikborg will give an update on IUMI activities and current trends in the global marine insurance market at one of the popular IUA Market Briefings. The event will commence at 12 noon at the Baltic Exchange; enquiries to the IUA on 020 7617 4451. The International Underwriting Association has kindly provided the facilities for this week's IUMI meetings.

Mr Wikborg is director and senior underwriter of the Norwegian Hull Club. **-ends-**

Photo of Ole Wikborg available on request

NOTE

IUMI currently has 55 national associations as members, protecting and advancing their interests. It also provides an essential annual forum to discuss and exchange ideas, information and statistics of common interest, attended by marine underwriters and other marine professionals (www.iumi.com). IUMI's roots date back to 1874.

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