

Quality of New Construction: Increased Risks to H&M Underwriters?

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New Construction

Areas of increased risk?

- **Preponderance of building in one geographical area**
- **Management of quality control – subcontractors, virtual shipyards**
- **Pressure on first cost – little through life economics**
- **Specialist vessels – LNG and Passenger**
- **Changes in regulation**
- **Environmental issues (ESSR etc),**

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- **Regulation - Technical Issues**
 - **Enhanced Survey Program**
 - **Subdivision requirements for cargo ships and bulk carriers**
 - **Ro-Ro Requirements**









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- **Regulation - Environmental Influences**
 - **Double Hull Ships**
 - **Ballast water exchange**
 - **Marpol (amendments)**
 - **Environmentally Sound Ship Recycling (ESSR)**

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- **Regulation – Ship Operation & Management**
 - **ISM**
 - **ISPS**
 - **PSC**

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- **Regulations – Changes under Development**
 - **Common Structural Rules - Class**
 - **Goal Based Standards – IMO**
 - **Coastal State**

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- **Regulations – Class Changes under Development**
 - **IACS Common Structural Rules**
 - **Benchmarks**
 - **25 year design life**
 - **Implicit Midlife Renewal/Renovation**
 - **Treatment of corrosion and fatigue**
 - **IACS Common Structural Rules**
 - **Good early – mid life viability, but challenge underwriters in later life**



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- **Regulations – Changes under Development**
 - **IMO Goal Based Rules**
 - **Non prescriptive**
 - **Tiered approach**
 - **Introduces Fitness for Purpose**
 - **Transparency**
- **IMO Goal Based Rules**
 - **Fundamentally change relationship between the National Administrations and Class**

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The role of the ship builder

- **The Builder has a central and significant role in construction of sound vessels**
 - **No international standards for safety management**
 - **None for quality management**
 - **None for management of subcontractors**
 - **There are national standards for technical tolerance**
- **Notation of Class (+) does not provide a measure of the quality of the yard.**

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The role of the ship builder

- **The Builder :**
- **Limited warranty for 12 months**
- **Little (no) product liability**

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- **Why discuss “Changes in New construction” within the context of the regulations?**
 - **Because they provide a measure of concern at the quality of shipping**
 - **Because Underwriters are ideally placed to bring their practical concerns before the Societies to influence the new, radical developments**

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■ Preamble to the IACS Code of Ethics

The decisive bodies by which the demand for work and therefore the existence of Classification Societies is ultimately governed are National Administrations and Underwriters

The relation to Underwriters can only work by virtue of the fact that they continue to have a need for the services rendered by Classification societies. If, in their view, the statements of the Societies become insufficient or unreliable, Underwriters may use their own sources.

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Underwriters response?

- **Participation with administrations and societies to express where concerns lie**
- **“Insurance solutions” to risk – exclusions/risk, management, fortunities**
- **Cut tail of claims**
- **Definition of standards – ship builders quality standards – monitored and applied by independent assessors**
- **Shipbuilders guarantee period and cover**
- **Product liability**

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■ Concluding Remarks

- The title, Quality of New Construction : Increased Risks to H&M Underwriters? is an enormous subject. I have chosen to focus on the regulators point of view, highlighting the influences changes in regulation have had on risk.
- Based on the range and extent of change over the past 10 years, it would be reasonable to conclude there is a lack of confidence in the existing regime to minimise risk in the marine environment.
- We believe further changes in the regulatory environment, notably Common Rules and Goal Based rules represent a fundamental shift in the role of the regulator and the relationship between National Administrations and the Classification Societies. Coastal states further compliance a changing regime.
- Through their position as the objective of Class, Underwriters are ideally positioned to bring their practical concerns and experience and to influence these developments.



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- Further details,
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