





# State of the Hull Market Chairman's Report

Ole Wikborg  
Ocean Hull Committee



# **Ocean Hull Committee**

|                               |                |
|-------------------------------|----------------|
| <b>Bartolomeo Barberis</b>    | <b>Italy</b>   |
| <b>Simon Beale</b>            | <b>UK</b>      |
| <b>Denis Develey</b>          | <b>France</b>  |
| <b>Volker Dierks</b>          | <b>Germany</b> |
| <b>Peter McIntosh</b>         | <b>UK</b>      |
| <b>Leif Nordlund</b>          | <b>Finland</b> |
| <b>Sergey Tubitsyn</b>        | <b>Russia</b>  |
| <b>Fred Robertie</b>          | <b>USA</b>     |
| <b>Ryuichi Segawa</b>         | <b>Japan</b>   |
| <b>Neil Smith (Secretary)</b> | <b>UK</b>      |
| <b>Ole Wikborg (Chairman)</b> | <b>Norway</b>  |



# How is shipping doing?

"Today's global economy is sustained and fuelled through shipping, and the maritime industry is enjoying a period of unprecedented activity. This leads to increasing challenges for the marine underwriter."

Clive Washbourn, August 2006

Container shipping is booming...



...and tankers are also doing well

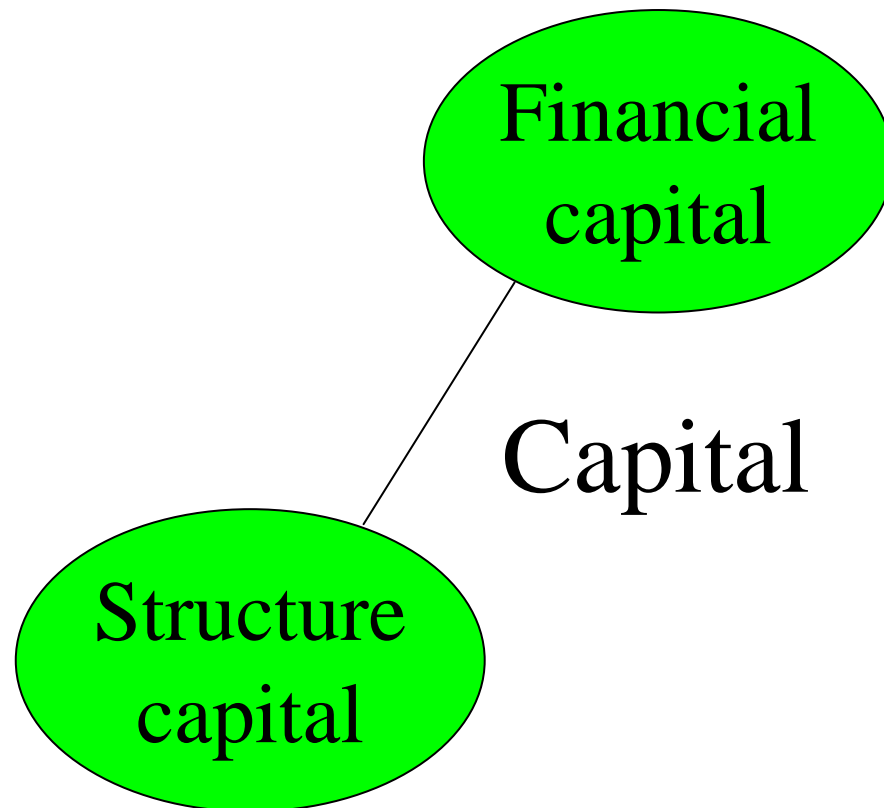


# Resource situation



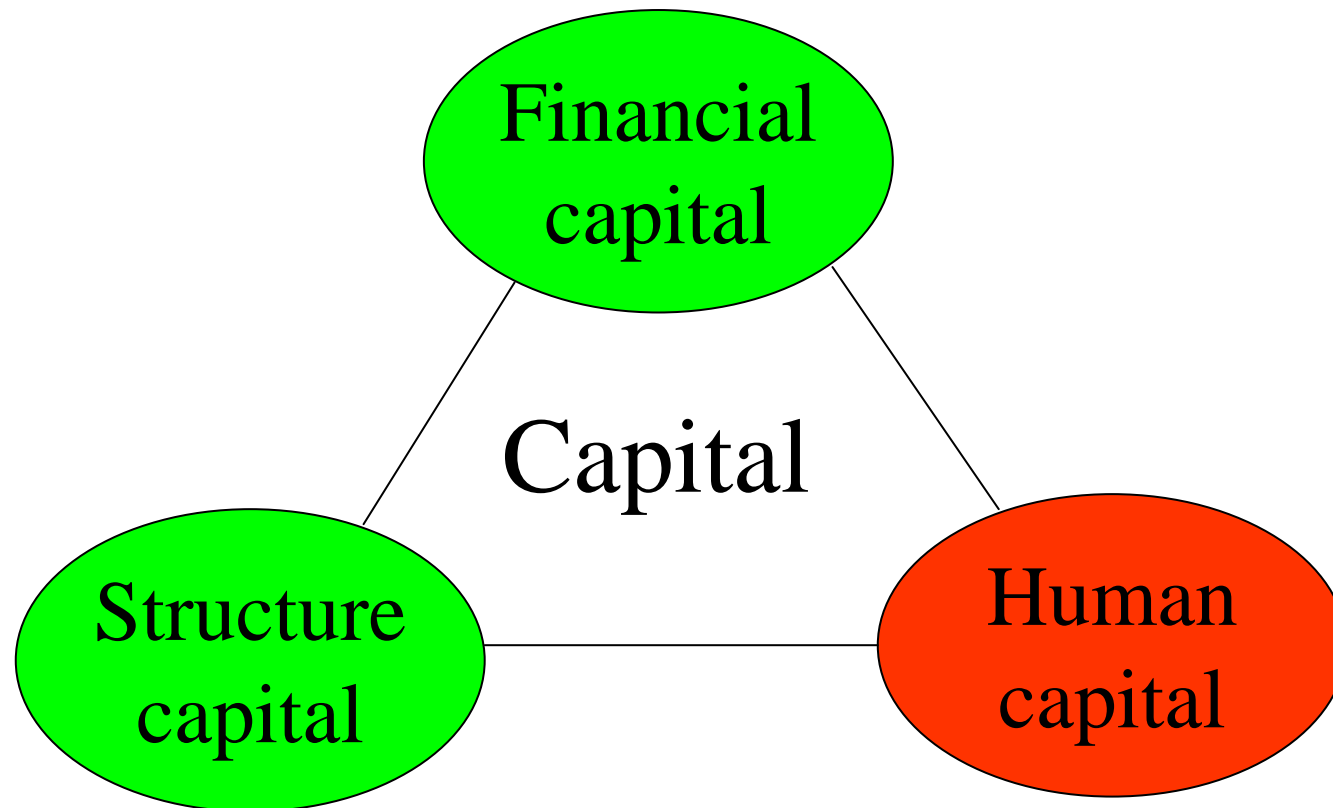
Capital

# Resource situation





# Resource situation



## The human element

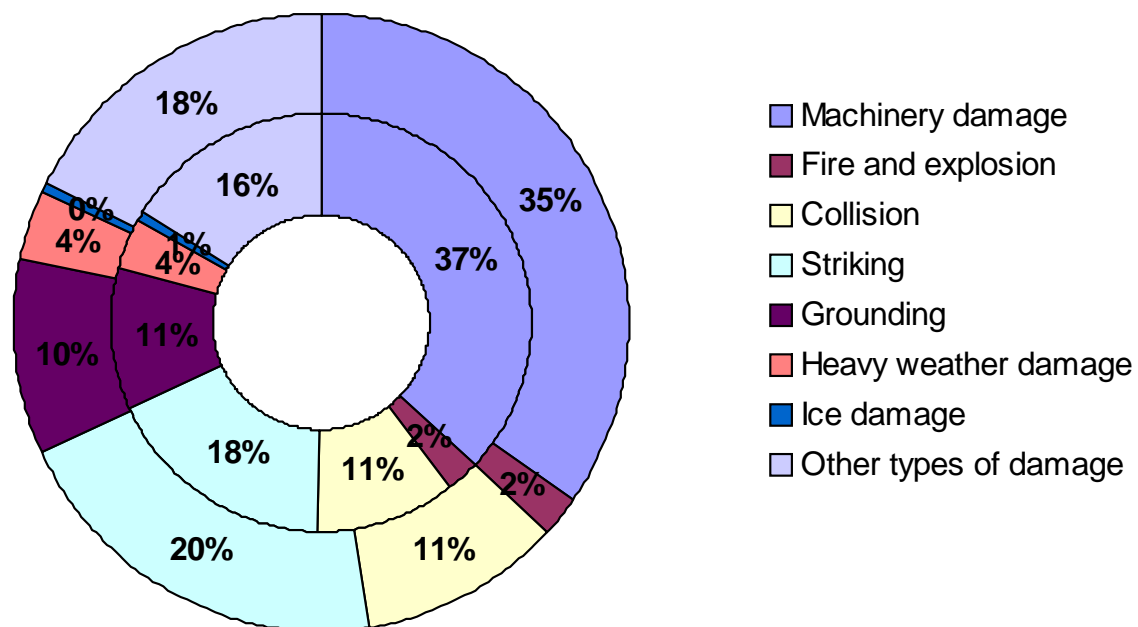
- Importance of attracting and retraining good crew will increase
- Increase in demand: 145 new LNG ships being constructed / 3500 new "experienced" crew needed
- 50% of the training schools fail to come up to scratch (Henrik Madsen, CEO DNV)
- Manuals not supplied or hard to understand (Confidential Hazardous Incident Reporting Programme - CHIRP)

# Hull claims – by type

## Numbers (%)

Inner ring: 2000-2004

Outer ring: 2004

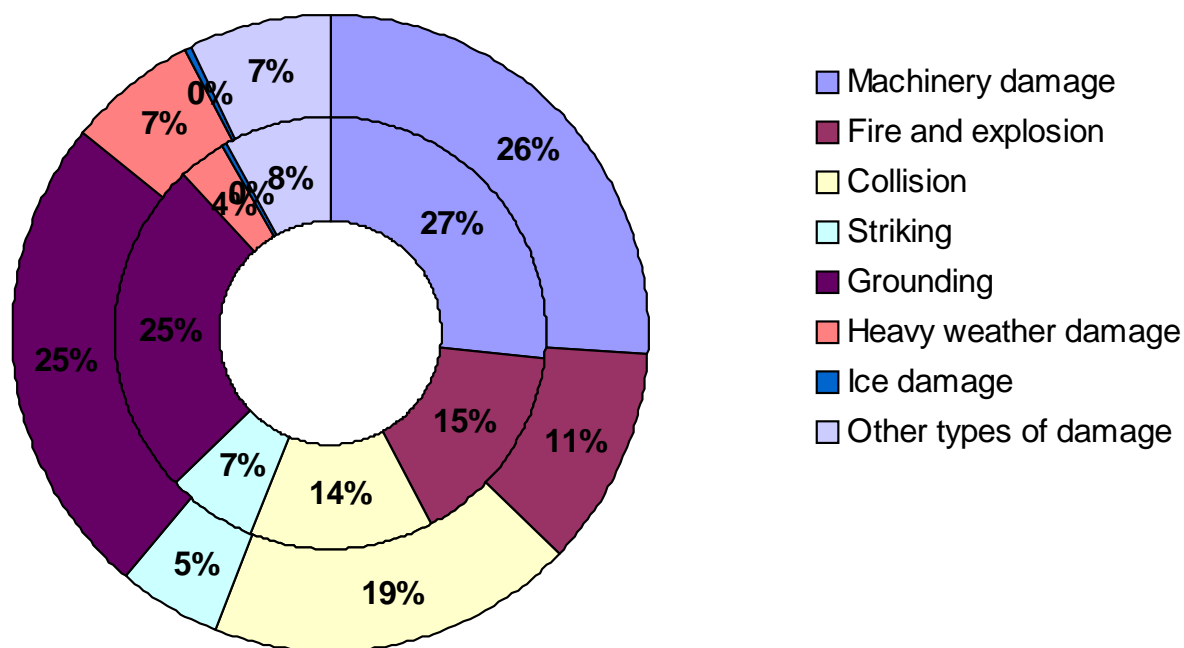


# Hull claims – by cost

## Costs (%)

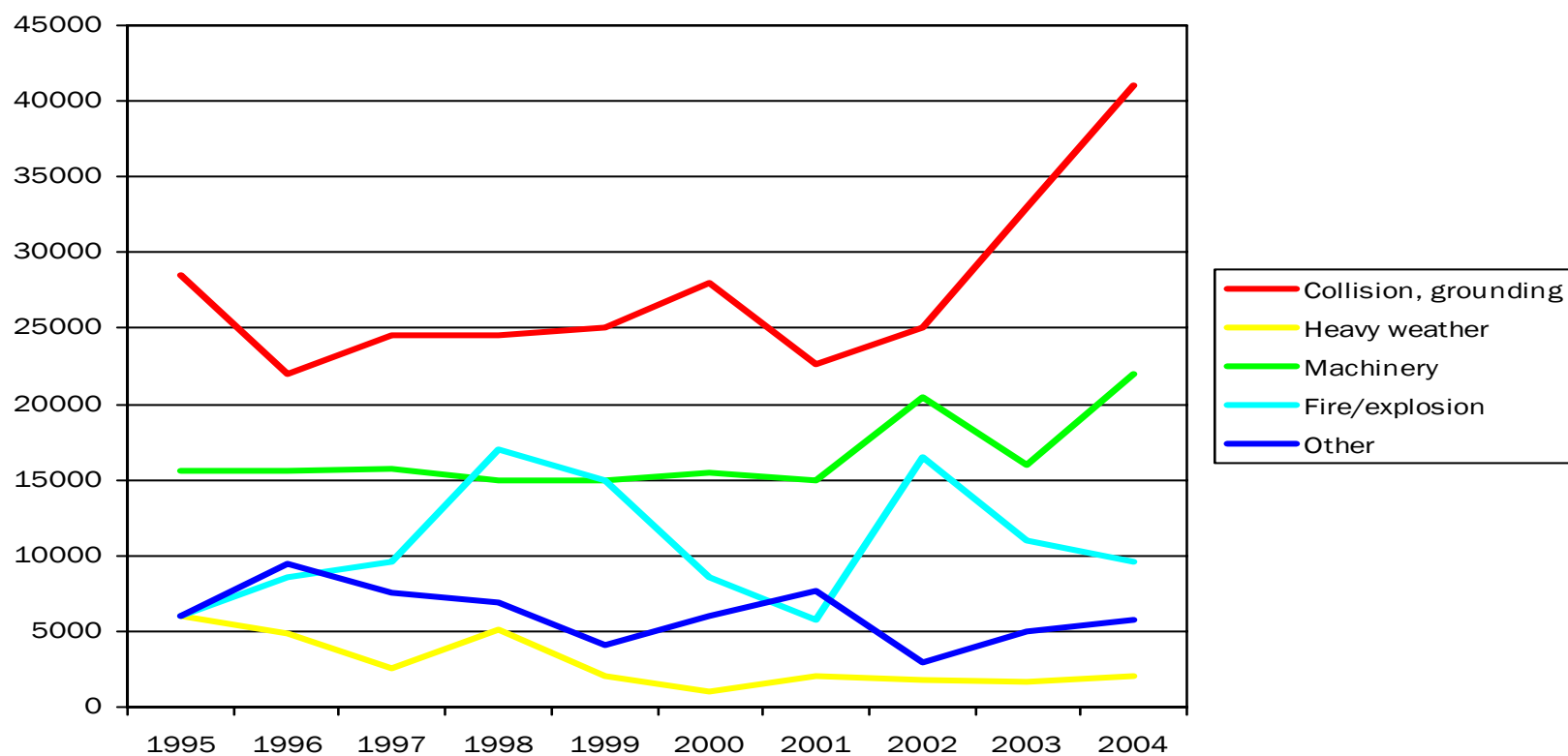
Inner ring: 2000-2004

Outer ring: 2004



# Hull claims – by cost and type

Average USD claim per vessel





## Some events in 2006

# Tanker explosion / fire



# Tanker explosion / fire



Maybe "NO WELDING"  
is more appropriate ?



# Tanker explosion / fire



# Cruise vessel grounding



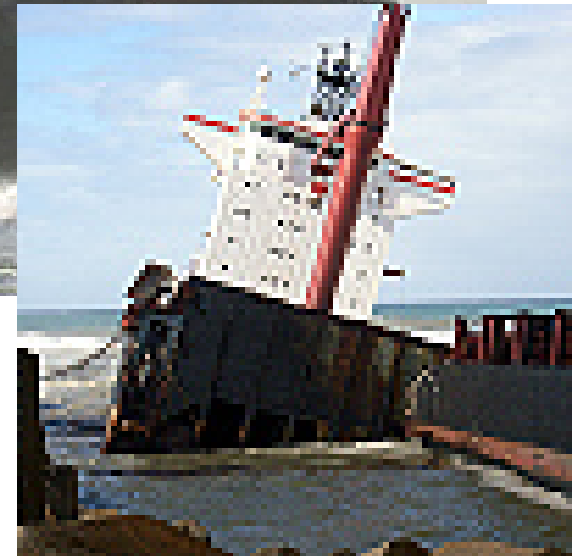
# Container vessel fire



# Container vessel grounding



# Container vessel grounding





# Container vessel grounding



# Container vessel grounding





# Container vessel grounding





# Bulk carrier / Container vessel collision



# Structural damage capesize bulk carrier



# Structural damage capesize bulk carrier





# Ballasting problems car carrier



# Ballasting problems car carrier



Photo: Alaska Report

# Ballasting problems car carrier



# Passenger vessel fires



"Al Salam Boccaccio  
'98"

- Fire on car deck
- We don't know what went wrong, but we know:
- No mustering of passenger
- Few survivors
- Confused bridge crew

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"Calypso"

- Fire in the engine room
- Passengers mustered, - ready to abandon ship
- No casualties
- Well managed crisis with "successful" outcome





# Inspection and certification status

"Al Salam Boccaccio '98"

- Passed all inspections,  
no outstanding issues

# Inspection and certification status

## "Al Salam Boccaccio '98"

- Passed all inspections, no outstanding issues

## "Calypso"

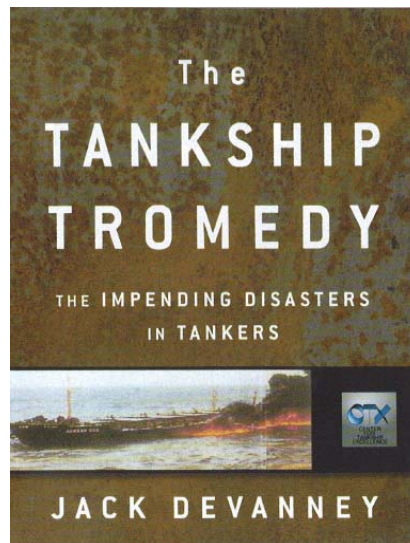
- Inspected in Seville two weeks prior with failures including:
  - Fire safety measures
  - Cleaness of engine room
  - Fire extinguishing installation
  - Safety certificates
  - Crew training



..but the behaviour of the crew made a big difference

# The Tankship Tromedy

"We must replace the current, shipowner-controlled, flagstate, classification society system. It's not regulation, - it's an auction."



Jack Devanney: "The Tankship Tromedy" 2006



BUT...

most shipping companies have improved their safety awareness and safety record which contributes positively to the general reputation of shipping



# State of the H&M Market

- Booming shipping market fuels everybody's appetite
- Higher exposures = demand for more underwriting capacity (which is readily available): Big is beautiful
- Continued contraction in the overall / global number of active underwriters
- Insurance subject to tighter control by authorities – including higher solvency requirements

# State of the H&M Market

- Non-academic approach to risk assessment and pricing
- Hurricanes and assumingly higher reinsurance costs have little impact on premium quoted to ship owners
- No (or few) official reductions, but "funny" clauses and old fashion tricks continue to evaporate underwriters' net premium base
- Hull insurance is a commodity

## 2006 – Other market issues

- Always new players willing to look at a risk with fresh eyes
- Dominance of the distribution channel in determining "correct" insurance premium when brokers are providing "guidance"
- Global market fully utilized by brokers



## 2006 – Other market issues

- Pricing based on individual records as opposed to historical need to cover claims and costs per class of risk ("the absence of claims is not symphonious with the absence of risk")
- Market pricing vs. correct pricing based on actual loss history for type of risk
- Administrative and reinsurance costs
- The lack of claims is not synonymous with lack of risk



# State of the Market

...so nothing is new



# State of the Market

...so nothing is new, but money is being made in hull insurance



# State of the Market

...so nothing is new, but money is being made in hull insurance - and as the last pessimist is about to become an optimist, it is time to watch out...



# IUMI Tokyo

## **Risk Assessment and Loss Prevention – a Common Goal**

- What's in it for Hull underwriters?



# IUMI Tokyo

- Risk Assessment:
  - Identifying risk elements
- Loss Prevention
  - Applying past experience to reduce risk

## Risk Assessment

- Shipping will continue to enjoy good times
- Commercial pressure resulting in demand for higher speed and quicker turnarounds will continue
- Shipping lanes will be busy
- Ports will (continue) to be congested
- Equipment fatigue is beginning to show
- Importance of attracting and retaining good crew will increase



# Risk Assessment

- Ships are getting more sophisticated and a lot more expensive
- Shipping will have the public eye and not get away with substandard quality of any kind
- Other issues



# Loss Prevention

- Ship operators must apply structure to minimize risks
- Underwriters must ask specific questions and evaluate answers



## Going forward - Conclusions

- Importance of attracting and retaining good crew will increase

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- Proper safety procedures must be established and adhered to

Being safety concious....



## Going forward - Conclusions

- Importance of attracting and retaining good crew will increase
- Proper safety procedures must be established and adhered to
- Insurance pricing must be based on actual costs, because

## Going forward

- whilst most sectors of the insurance industry are reporting increased income and profits, H&M underwriters as an industry are unable to achieve the necessary balance between exposure, i.e. potential claims, and actual claims costs on one side **and** risk remuneration, i.e. premium, on the other.

## Going forward

- whilst most sectors of the insurance industries are reporting increased income and profits, H&M underwriters as an industry are unable to achieve the necessary balance between exposure, i.e. potential claims, and actual claims costs on one side and risk remuneration, i.e. premium, on the other.
- Well respected leadership in the H&M insurance business is absent.

# Past OHC agenda

- Singapore issues – Builders' Risk
  - Much-improved loss record, tripling of premium, higher deductibles and the introduction of shipyard risk warranties, - but:
  - Windstorms have a significant influence on the risk at building yards as well as ports
- Amsterdam issues
  - Analysing the quality of new constructions
  - Crew quality
  - Oil export from Primorsk
  - Factors influencing the claim's cost
  - Claim trends
  - Is the cover too extensive?





## 2006 OHC Workshop

### Claims Cost: From the difficult to the impossible – Moving into unknown waters

- The salvage of a large container vessel  
Mr. Richard Fairbanks – Titan
- General Average Issues / Large Container Vessels  
Mr. Toru Shigematsu – Asai & Ichikawa
- Changing and expanding risks on LNG vessel  
Mr. Makoto Hoshi – Mitsui Sumitomo Ins Co Ltd
- Underwriters challenges – advancing technology  
Mr. Peter Zahalka - VHT