



Project Cargo Insurance Warranty Surveys

A presentation for the
IUMI Conference – Vancouver, 2008



CSL

Project cargo warranty surveys



- What are these surveys and why do we need them?
- What should be surveyed and when?
- Critical items (or “key items”)
- What else needs to be considered?
- Information & communication
- Missed surveys
- Technical know how
- Survey fees – how much and who should pay?
- Incidents & accidents
- Emergency response scenarios

Project cargo warranty surveys

What are they and why do we need them?

- ▶ Required to support the survey warranty typically found in project cargo / DSU (Delay in Start Up) insurance policies.
[DSU also known as "ALOP" or "Cons Loss"]
- ▶ Identified, agreed and nominated "critical items" - equipment that is difficult to replace and, if lost or damaged in transit to site, could delay the construction process and the intended start up date.
- ▶ Key movements of critical items of equipment are surveyed to ensure that the risk is properly managed and that exposures to physical damage and delay are minimised.
- ▶ The survey process typically goes beyond pure marine / cargo surveying, and involves practical intervention in the project cargo risk life cycle.
- ▶ The most appropriate name for this loss prevention process is **"Project Cargo Risk Management"**





IUMI
International Union of
Marine Insurance



As displayed here:

28 AXLES x 4 WHEELS

Carries up to 1,500 tonnes

What should be surveyed and when? (risk management strategy)



- ▶ Pre project risk management analysis
Identification and agreement of critical items, shipping schedule, replacement times, load and discharge ports
- ▶ Transit preparations
Packing, routing, selection of carriers, handling equipment, site facilities
- ▶ Key movements of critical equipment
*Loading, stowing, securing of cargo to trailers, trucks, ships, barges and aircraft. Discharging, transshipment, **positioning**, temporary and final storage.*
- ▶ Conveyance and handling equipment
Suitability of vessels, land vehicles and aircraft. Lifting equipment, lashing equipment, method of employment. Ability and experience of operators.

Critical items

- ▶ Items likely to cause a delay to the planned construction process if delayed, damaged or lost in transit.
- ▶ Equipment with long replacement (repair, re-manufacture, re-shipping) periods.
- ▶ Also often identified as large, out of gauge, heavy or otherwise difficult to handle items of equipment.
- ▶ Many smaller, containerised items are also critical. The survey warranty often excludes containerised cargo.
- ▶ Contractor's plant and equipment, such as cranes and jack ups are often pre-booked and time critical.
- ▶ Critical item analysis is a complex issue and depends on multiple considerations.
- ▶ As the project progresses, the true exposure of critical items and the DSU insurance changes.



What else needs to be considered?

- ▶ Enhanced consideration of critical equipment and what needs to be surveyed, including the packaging, and stowing and securing of containerised items.
- ▶ Port conditions and infrastructure. Are the proposed loading and discharge ports adequate? If a key port becomes inaccessible during the project life cycle, what is the contingency plan?
- ▶ The construction site from a cargo handling and storage perspective. Are critical items going to be handled and stored correctly whilst covered under the cargo / DSU policy? Is it absolutely clear where the cargo coverage ends?
- ▶ Cargo / DSU aggregate exposures on a single and multiple project basis. Specialist heavy lift vessels frequently carry critical items for more than one project. Who is monitoring and reporting these exposures?
- ▶ Changes to the 'criticality' of critical items during the project life cycle. Who is monitoring this and what are the contingency plans for deterioration in DSU exposure?



Information and communication



- ▶ The most important aspect of project cargo risk management programme is communication.
- ▶ Timely development of project cargo risk management information is critical to the successful planning and implementation of the practical risk management activities.
- ▶ Multiple communications with clients, brokers, underwriters, banks, contractors, manufacturers, carriers, freight forwarders, shipping agents, port authorities.....and surveyors.
- ▶ Intelligence gathering goes on throughout the project life cycle. A vast amount of information and knowledge is available. What is valuable and who wants it?
- ▶ Efficient reporting protocols are essential to avoid "information overload".

Missed surveys (How to avoid them)



"Yes, of course I'll tell you when the ship is loading!"

- ▶ If the survey of a critical item is missed, the cover provided under the policy reduces significantly.
- ▶ Arranging a survey is a critical activity for surveyors, underwriters and clients, but to arrange it we depend on other parties often with different priorities.
- ▶ All parties involved in the project cargo process need to know that surveys are taking place and the implications of missing a survey.
- ▶ Early notification of intended cargo movements is crucial in order to prepare and commit the right surveyor and to gain all necessary permission to access the survey location
- ▶ Well trained, dedicated personnel, pro active communications and a fail-safe diary system are critical components to arranging multiple project cargo surveys.

Technical know-how

- ▶ Why isn't this first?
- ▶ Master Mariners, naval architects, engineers, road transport consultants, "trouble shooters". We need them all and we need all their skills.
- ▶ Regardless of technical discipline, a project cargo surveyor needs common sense, the ability to listen, assess and communicate, a teamwork mentality, confidence (through experience), and, ideally a mobile phone signal.
- ▶ Preparation is everything. Knowledge of equipment capabilities, certification and operating procedures and attention to detail are paramount.
- ▶ There is no need to rush the lifting or handling of a critical item.
- ▶ The sharing of knowledge and experience is crucial to doing a good job today and a good job tomorrow.





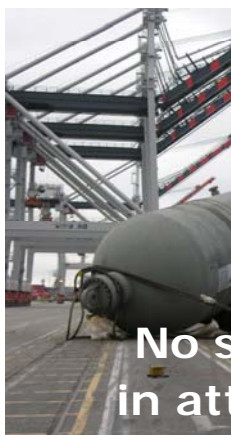
Survey fees

How much and who should pay?

- ▶ Overall survey fees for a project are dependent on the number of agreed critical items to be shipped.
- ▶ Other survey fee considerations include:
 - Number of surveys per item
 - Transhipment activity
 - Additional survey activity (beyond key movements)
 - Consolidation or de-consolidation of critical items
 - Potential "sample" surveys for repeat movements
- ▶ There is limited evidence that saving money on survey fees is a high priority for clients.
- ▶ The proper budgeting of project cargo warranty survey fees is a detailed, bespoke exercise and takes time; there is no "rule of thumb" estimation process.
- ▶ Survey fees are typically paid by clients or by underwriters, or a combination of both.
- ▶ Underwriters usually stipulate the survey company to be used. When clients are paying the survey fees, who is the survey company's customer?



Incidents and accidents



Emergency response scenarios

If the survey of a critical item is missed.....

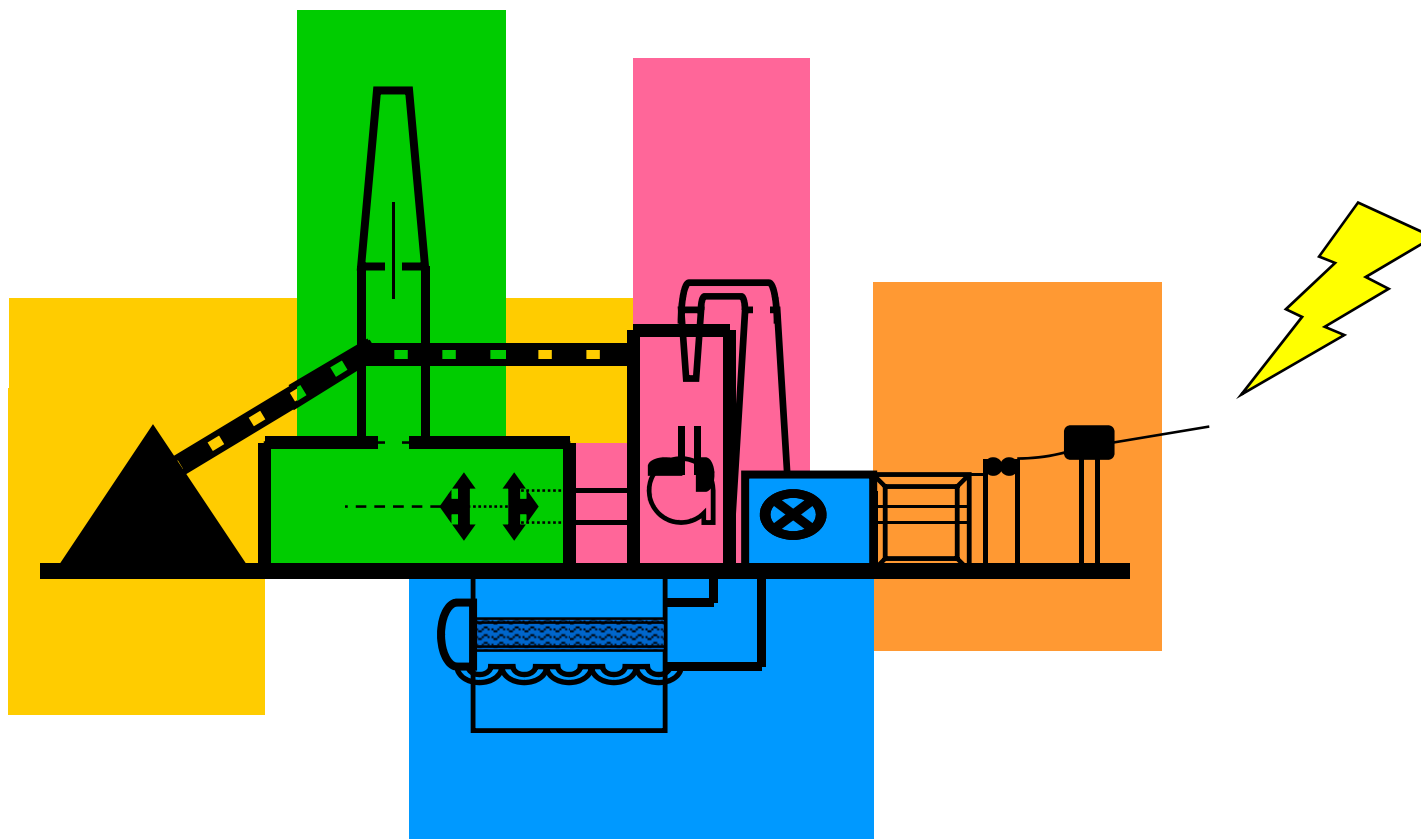
- ▶ Surveyors can be appointed at subsequent, intermediate ports of call to conduct a survey.
- ▶ Ships can be delayed or diverted to facilitate the attendance of a surveyor. This is expensive.

If a critical item is lost or damaged.....

- ▶ First priority is to ascertain if equipment can be repaired (and if so, where, by who and how long) and/or replaced or if the project can be re-engineered.
- ▶ Availability of replacement equipment depends on multiple engineering and commercial considerations.
- ▶ Short notice availability of suitable heavy lift vessels or heavy cargo aircraft is limited and expensive.
- ▶ The combined commercial pressures from all interested parties can often generate a solution, but not always the most suitable one from a project cargo risk management perspective.



Questions and discussion



THANK YOU FOR YOUR ATTENTION